THE MARKETING OF AUSTRALIAN AND NEW ZEALAND PRIMARY PRODUCTS

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BY

W. MILLAR SMITH

M.A., B.COM. (N.Z.), PH.D. (ECON.) (LOND.), F.S.S.

SOMETIME SENIOR SCHOLAR IN THE UNIVERSITY OF NEW ZEALAND

WITH A FOREWORD BY

J. COATMAN, C.I.E., M.A.

LATE PROFESSOR OF IMPERIAL ECONOMIC RELATIONS IN THE UNIVERSITY OF LONDON

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TO

THE MEMORY OF MY MOTHER

FOREWORD

I REGARD it as a privilege to be able to introduce Dr. Smith's book to the public. Originally, it was in the form of a thesis for the degree of Ph.D. of London University, and during the latter part of its preparation Dr. Smith was under my supervision. I was at once attracted by its subject, not only because of its importance in inter-Imperial and, indeed, in international trade, but because of the opportunities which it affords for the application of theoretical analysis to practical problems. I quickly saw that Dr. Smith was well qualified to carry out this application of theory to practice. He handles his economic analysis with competence and firmness, while his knowledge of the actual details of marketing arrangements and processes is complete. The result is that we have a book which both students and those concerned at all stages of the marketing of Australian and New Zealand primary produce can read with benefit.

Recent developments in the United Kingdom have made it quite clear that certain readjustments in the Ottawa Agreements will come up for effective discussion when the Agreements expire. Australia and New Zealand will be peculiarly affected by such readjustments, and therefore it is to the advantage of all concerned that all parts of the existing mechanism by which commodity exchanges are effected between these two countries and the United Kingdom should be thoroughly understood. Here Dr. Smith's book will be particularly valuable, because he shows clearly and simply the basic conditions of the efficient marketing of Australian and New Zealand primary produce in their greatest market. It will be seen from these remarks that his book is something far more than a mere exposé of a working system. He gets down to root principles and he deals with his subject in the light of the teachings of economic science. The production and encouragement of studies such as this was one of the principal objectives of the Chair of Imperial Economic Relations in the University of London. Owing to the disbandment of the Empire

Marketing Board, that Chair has now disappeared, but as its first and only occupant I am very proud to point to Dr. Smith's book as one of the permanent results of its short existence.

J. COATMAN, C.I.E., M.A.

Late Professor of Imperial Economic Relations in London University.

PREFACE

THIS book was first written towards the end of 1931. Its publication was deferred owing to the subsequent unsettlement of the trades with which it deals and it has since been revised and largely rewritten. The book is based upon practical experience in the countries concerned and upon direct market research over a period of years, as well as upon printed sources of information. Many of these have only become available since 1931 and they have been carefully scrutinized in order to check and add to the information given here.

My general attitude towards the developments in recent years will, it is hoped, be reasonably clear. Briefly, I welcome any measures of rationalization and social control which redound to the general good, but am opposed to the widespread attempts to manipulate the economic system for the advantage of sectional interests. It is, however, impossible in these days to maintain any strict and uncompromising view of economic policies, for between what appears valid by the test of economic theory and what is possible in practice and tolerable to the electorate there is much to choose. We are, in fact, compelled to rely more and more upon broad social judgments and less and less upon theories which no longer seem to fit the needs and tendencies of the age.

Even before the crisis, the great weakness of agriculture in most parts of the world was the extent to which it was carried on upon credit. The facilities for obtaining credit have probably proved as much a menace as a help. For the farm tended to become the apanage of the middleman concern which made advances for the purchase of stock, implements, seasonal requisites, household necessities, and what not. The farm yielded revenue to the middleman and to the mortgagee, while leaving them free from the more burdensome incidents of legal ownership. To this readiness to take up land upon unprofitable terms is to be largely ascribed the drudgery, if not semi-slavery, to which

many small farmers and their families are condemned. It is unfortunate, therefore, that a greater degree of "cleansing" was not allowed to take place after 1929, so that capital values and current indebtedness would have been brought quickly to a level which would have obviated a long period of uneconomic subsidies to agriculture and the wasteful and gratuitous export of capital which this involves.

In many countries, and especially in academic circles, it has been commonly assumed that Australia and New Zealand surmounted the crisis by putting into force a kind of national treaty whereby economic adjustments were rapidly and equitably effected. But the wisdom, to say nothing of the equity, of many of the adjustments that were made remains doubtful. The measure of recovery is largely owing to increased efficiency and improved prices abroad, while the major problem of capital debt has been shelved. In New Zealand the electors have recently indicated in very decisive fashion that they had assented to no national treaty but had had imposed upon them a "Diktat" akin to that of Versailles. The worst feature, however, of the whole process of government intervention is undoubtedly that it opened the way for the unscrupulous exploitation of the crisis by many individuals and concerns who benefited by various forms of subsidy and remissions of debt to which they were not fairly entitled. Indeed, it is not too much to say that in Australia and New Zealand the evasion of their liabilities by a section of the rural interest has been almost erected into a system and that subsidies of one sort or another have come to be regarded as the inalienable prerogative of agriculture.

The great difficulty about writing upon any subject of contemporary interest is to keep pace with the march of events. A few of the developments which have occurred since this book went to press are mentioned in an appendix and it is hoped that it is otherwise as up-to-date as is possible.

The book owes much to the assistance of friends and teachers, among them Mr. J. Coatman, C.I.E., who contributes a foreword, Mr. F. L. Macdougall, C.M.G., Chairman of the Imperial Economic Committee, Mr. H. E. Davis, of the New Zealand Dairy Board, and Mr. R. S. Forsyth, C.M.G., of the New Zealand Meat Board.

The officers of the other produce boards and of a host of government departments have also been most helpful and patient, as well as the many business men whose assistance and opinions were sought over a considerable number of years. Not a few of these will perhaps dissent from some at least of the views expressed. I should like to make special mention of the help given by the officers of the Dominion Governments in London and in particular by those at New Zealand House. I must also make grateful acknowledgment of a grant from the Publication Fund of the University of London towards the cost of publication.

I am deeply indebted to my wife for undertaking much of the tedious work that goes to the making of a book.

It only remains to add that I alone am responsible for the opinions which I have not hesitated to express throughout the book. On that account, I shall welcome criticism, especially upon matters of fact. For the rest, in putting forth a work which is mainly one of simple narration and description I am not unmindful of the remark of Hobbes that philosophy "excludes history as well natural as political, though most useful (nay, necessary) to philosophy; because such knowledge is but experience and not ratiocination." I trust none the less that in setting down, however imperfectly, the experience of some of the primary produce trades I have furnished material which may prove of service to theoreticians and which will be of interest to those who inhabit less lofty regions.

W. MILLAR SMITH

PALMERSTON NORTH, N.Z.
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THE MARKETING OF AUSTRALIAN AND NEW ZEALAND PRIMARY PRODUCTS

CHAPTER I

THE IMPULSE TO LARGE-SCALE MARKETING

1. The Advent of War

The difficulties of conducting an export trade under war conditions and the reactions of the inevitable post-war fluctuations have focused the attention of producers more than ever upon problems of marketing. The result has been, in many cases, to prompt economic experiment of a nature and on a scale never before contemplated. It is true that, for at least a generation before the war, producers in Australia and New Zealand had, in varying degree, the benefit of state assistance in initiating and in developing export trades and that some progress had been made in the direction of co-operative marketing. It is true also that they not seldom expressed their dissatisfaction with marketing methods.[1] Such crises as did develop were few, however, and on a minor scale;[2] and in this century, at least, the experience of agricultural producers was happy. In the words of one authority "the farmer was winning a greater produce from the soil and getting for that produce higher and higher prices each year, while his main costs, especially interest and wages, lagged behind produce prices."[3] A steady and profitable extension of settlement

[1] The Reports of the Australian Royal Commission on the Fruit Industry (1912) recommended *inter alia* that Government Produce Departments controlling exports should be established in all States. In 1913 the Agent-General for Tasmania advised Australian dairying interests to act in concert on the London market. (Tasmania: Journals and Papers of Parliament: Vol. LXXI. 1914–15. Paper No. 1.)

[2] The financial crisis in the U.S.A. at the end of 1907 caused a severe decline in wool and hemp prices.

[3] J. B. Condliffe: Effects of Changing Price-levels on the Economic Development of New Zealand. (*Transactions of N.Z. Institute*, Vol. 56, p. 722.) See also: J. W. McIlwraith: *The Course of Prices in New Zealand*; Commonwealth Bureau of Census and Statistics: Labour Bulletin Nos. 1-6, 1913-14.

accompanied a gradual appreciation of land values.[1] Land speculation, associated with a rise in the bankruptcy rate, was in evidence, but it did not attain the fever heat of the early post-war years, nor had it to reckon with a withering fall in prices. Even the universal drought in Australia in 1902 imposed but a temporary halt upon production and its effects were rapidly obliterated.

Upon this scene of quiet prosperity and busy endeavour war intruded. The effects of the outbreak were threefold—psychological, economic, and political. The gloom induced by the thought that markets would no longer be so accessible was in part dispelled by the belief that conflict on such a scale could not be lasting. The markets that were cut off, either by warfare or by embargo imposed at home, were relatively unimportant, except in the case of wool. But the best measure of all these influences is the movement of prices. The decline in most export markets was but momentary, and by October even the wool market had recovered.

The new export season was just about to open when war was declared and the degree of dislocation was, therefore, a minimum. The situation was complicated by the fact that Australia suffered from a severe drought during the 1914–15 season and that climatic conditions had not been favourable to production in the months preceding the commencement of the export year. Hence the wool clip came forward in less perfect condition than usual and there was a severe decline in the volume of commodities available for export. In New Zealand, somewhat droughty conditions advanced the opening of the meat-export season. These physical factors served on balance, however, to diminish the difficulties of transporting such exports as were available. Though a shortage of freight early began to make itself evident, the rise in rates was not considerable and was in part prevented by existing contracts of carriage covering some important classes of refrigerated

[1] For an interesting review of the condition of rural industry before the war, see: Dominions Royal Commission: Minutes of Evidence taken in Australia in 1913. Part I. Cmd. 7171, Part II. Cmd. 7172. Minutes of Evidence taken in New Zealand in 1913. Cmd. 7170. Second Interim Report, 1914. Cmd. 7210.

cargo.[1] There was no vast accumulation of produce wholly unable to reach the markets in the normal way, and it was not yet realized how weak a link connected Australasia with consumers abroad, nor how vulnerable these Dominions were when faced by a ruthless enemy operating far from their shores.

The wool market was in the most critical position of all. At the Sydney sales there was an average decline in prices of 10 per cent and more than half the offerings were withdrawn. Eventually, the Commonwealth wool brokers decided to await the results of the London sales on 6th October. These revealed a smaller decline in merino values than had been anticipated and a rise of about 20 per cent in crossbreds. Merinos recovered and crossbreds continued to advance, with the result that there was a rush to sell, especially in view of the freight shortage that was developing and the difficulties of financing the sales. But the effect on prices was only temporary, and in some cases nil.

Increased British, Japanese, and local demand had compensated for the withdrawal of France, Germany, and the Continent generally, though these had taken more than half the clip in normal years. The New Zealand clip, being mainly crossbred and in good condition, realized good prices, and the English buyers were able to lift all the offerings. Some difficulty was experienced in disposing of Australian carbonizing wools since the Continental carbonizing plants were out of action, the quantity of burry wool was considerable owing to climatic conditions, and buyers desired qualities that could be manufactured without delay.

No export problem arose in regard to wheat, Australia being a heavy importer for part of the season owing to the widespread failure of the harvest. The crop amounted to less than 25 million bushels, as against 103 million the previous year, and prices rose sharply. By this time, prices of pastoral products generally showed a rising tendency, though there was no considerable

[1] In New Zealand, e.g., contracts for the carriage of refrigerated cargo had been negotiated as late as 1914 for a term of five years, and these were faithfully observed by the shipping companies until the British Government commandeered all insulated tonnage in March, 1915.

upward movement.[1] Yet governments were apprehensive and legislative action was everywhere taken, except in Tasmania, to control prices and secure returns of stocks. Coupled with these measures was a general exhortation to increase production, accompanied in the case of New South Wales by a promise of guaranteed prices for wheat.[2] The Commonwealth appointed a Royal Commission, which made a survey of the situation and reported, but it ceased to function after October, 1914.[3]

2. The Control and Direction of Trade, 1914–1921

While it is natural during war to expect governmental interference with economic machinery, the people of Australia and New Zealand were not unaccustomed, even in normal times, to action by the state in spheres left wholly to private enterprise in older communities. One section or another of producers had had recourse to government at various times in order to secure privileges which they believed to be necessary to the continued existence or progress of their industry. And the community at large, in times of emergency, looked to the state to supply what it conceived to be the deficiencies of private enterprise. The outbreak of war found the governments of Australia and New Zealand already clothed with power to regulate trade in wartime to the extent of controlling the import and export of commodities. Most of the States immediately took further power to limit prices. At a conference of Federal and State ministers shortly after war broke out, uniform action for the purpose of controlling prices of foodstuffs and securing returns of stocks was decided upon. This solicitude for consumers was but partly due to the desire to prevent dissension in time of war. It may seem strange that the various authorities should then have taken such comprehensive

[1] Though London prices appeared attractive, this was due mainly to uncertainty of supplies and irregularity of arrivals. The statistical position in regard to meat had been steadily improving from the producers' point of view in the years preceding the war. See Report of Commonwealth Royal Commission on the Meat Export Trade, 1914, page 7.

[2] Premier's Budget speech, 1914. The guarantee of 4s. per bushel was to apply only to wheat the produce of land not under wheat in the previous season. Queensland offered an advance of £1 per acre towards the cost of cultivating new wheat areas, but only about £14,000 was loaned.

[3] Royal Commission on Food Supplies and Trade and Industries during the war.

steps to limit producers' profits. Accordingly, all the States introduced legislation,[1] though they failed to foresee the complications that arose from lack of uniformity in its administration from State to State. But no emergency developed and, except in Queensland, there was little price-fixing in the early months of the war, and none at all in Tasmania till 1916 or in South Australia till late in 1915. In New Zealand, some inquiries were made, but no action was recommended in consequence.

Though the Customs Act, 1910–14, and the War Precautions Act, 1914, gave it wide powers of control of trade in wartime, the Federal Government, until 1916, was content to limit its activities to external trade.[2] In March of that year, however, War Precautions (Prices Adjustment) Regulations were made and a Commonwealth Prices Adjustment Board was appointed and given power to regulate the prices of flour, bread, bran, and pollard. The Board's powers were challenged, but the High Court, by a majority decision, confirmed them.[3] The scope of the Board's investigations and activities was thereafter much enlarged and a great number of articles declared to be necessary commodities and therefore within its purview. Later, the Prices Adjustment Board resigned in a body, following the appointment of a Commissioner in each State to conduct investigations and make recommendations to the Minister regarding the necessity for

[1] New South Wales: Necessary Commodities Control Act (25/8/14). Victoria: Prices of Goods Act (9/9/14); Foodstuffs and Commodities Act (10/12/14). South Australia: Prices Regulation Act (13/8/14); Foodstuffs Commission Act (24/9/14). Western Australia: Control of Trade in War Time Act (8/8/14); Foodstuffs Commission Act. Queensland: Control of Trade Act (26/8/14).

In Tasmania, the Control of the Necessaries of Life Bill and the Foodstuffs Commission Bill were rejected by the Upper House. New Zealand passed the Regulation of Trade and Commerce Act. The New South Wales Act made provision for securing returns of stocks as well as for controlling prices. In Queensland there was no provision for obtaining returns, but the Meat Supply for Imperial Uses Act gave wide powers which could have been used to that end.

On the general question of price-control in Australia, see: H. L. Wilkinson—*State Regulation of Prices in Australia* (Melbourne, 1917). T. R. Bavin and H. V. Evatt—"Price-fixing in Australia during the War" (*Journal of Comparative Legislation*, Vol. 3, 1921, pp. 202–12). Supplements to the Manual of Emergency Legislation.

For New Zealand, see: W. B. Sutch—*Price-fixing in New Zealand.*

[2] The Defence Acts in both Dominions conferred further powers not cognizable by courts of law.

[3] *Farey* v. *Burvett*, [1916] 21 C.L.R. 433.

fixing maximum selling prices for various commodities. Under this system, prices for a large number of articles were fixed.[1]

In New Zealand, the Government had authority under the Customs Act, 1913, as extended by the Regulation of Trade and Commerce Act, 1914, to control the export trade and prices in the local market. No action was felt to be necessary, however, till the next year, and then special power was taken by the Cost of Living Act, 1915.[2] This Act made provision for the establishment of a Board of Trade, the members of which were to be appointed by government and conduct such investigations as the Minister might determine.

One of the objects which wartime control had in view was to prevent a rise in prices to export parity. So long as transport difficulties were acute and no assured external market was in view, there was little danger of a considerable increase except from causes independent of war. But when purchases began to be made by the Imperial Government under conditions which gave no certainty that export would be possible, very definite steps were taken in two instances, apart from the action of price-fixing tribunals, to keep local prices below those paid by the War Office and by the Food Controller. In Queensland, the State Government stipulated for supplies from the meatworks at prices below the export rates; and both in Australia and New Zealand, the local price of butter was below the requisition price, except on rare occasions. In view of the transport difficulty, it might be thought that some commodities would have fallen seriously in value. Price-fixing, however, at times maintained some articles, e.g. wheat, at slightly above export parity.[3] In New Zealand, a bread subsidy appeared before the war was over.

[1] *Vide* Manual of Emergency Legislation, Second Supplement.

[2] For the powers of the Australasian Governments generally during the war, see: J. Christie—*Manual of War Legislation of New Zealand*. Manual of Emergency Legislation—Commonwealth of Australia, and Supplements. A. B. Keith—*War Government of the British Dominions*.

The Report of the Select Committee on the Cost of Living in New Zealand (1917) went so far as to recommend the appointment of a Food Controller.

[3] Victoria: State Royal Commission on High Prices, No. 3 Report (16/12/19), p. 6. For variations in meat prices, see Inter-state Commission of Australia: Prices Investigation, No. 2 Report, Meat (3/10/17). Sydney prices, after allowing for freight, were as much as 10s. per 100 lb. above Brisbane, owing to the operation of Imperial purchase.

Apart from these measures of price control, governments engaged largely in trade. Owing to the drought of 1914–1915, action had to be taken in Australia to secure supplies of wheat and sugar; and some years later (1917), a Commonwealth butter pool had to be organized in order to provide for local needs. Once the policy of statutory control and government trading had been embarked upon, it was easy to continue and extend it and apply it later to wholly different conditions. The practices which governments felt impelled to adopt owing to the state of war, high prices in overseas markets, and the instability of production due to the vagaries of the weather, were often continued in force or resuscitated in the post-war years.

In view of the wheat and fodder shortage, South Australia led off with a Grain and Fodder Act (assented to 12th November, 1914). A Board, constituted under the Act, was given power to acquire grain and fodder. In its main features, this Act was the precursor of the New South Wales Wheat Acquisition Act (11th December, 1914),[1] by which the Governor-in-Council was given power to declare by notice in the *Gazette* that any wheat therein described or referred to was acquired by His Majesty. All pre-existing contracts for the sale of wheat and flour were avoided and a Board constituted to dispose of wheat and flour on behalf of the government. The object of the Act was to prevent speculation, especially in view of the difficulty of chartering freight in order to bring supplies from abroad. The other States did not find such drastic action necessary, though they were compelled to make purchases abroad and to regulate local prices and supplies.[2]

In New Zealand, in August, 1914, the prospects that supplies of wheat within the Dominion would suffice until the next harvest were not encouraging and the Australian drought increased the apprehension in the public mind. Prices of wheat rose and

[1] The N.S.W. Wheat Act was similar to the Queensland Meat Act. The validity of both Acts was afterwards contested. *Vide* Chapter II, Section 3.

[2] W. Australia passed a Grain and Foodstuffs Act (22/1/15) in order to ensure supplies, and the Tasmanian Government, by the Wheat Appropriation Act, 1915, was empowered to spend £95,000 in the purchase of wheat. The Commonwealth remitted the duty of 1s. 6d. per cental on imported wheat on 12/12/14. These measures to secure supplies should be distinguished from the series of Acts dealing with the bountiful harvest of 1915–16, when the problem was to ensure that difficulties attending exports would be equalized for every grower.

efforts to control them led to evasion. Some farmers were still holding wheat at the end of the year, but the government arranged for imports from Canada and Australia. Early in January, 1915, maximum prices were fixed by Proclamation, the government shouldering a loss of about £100,000 on its purchases in an effort to keep prices down.

By a Proclamation dated 30th June, 1915, all raw sugar the product of the 1915 crop of sugar cane was declared to be at the disposal of the Queensland Government. This Proclamation was anticipatory and was ratified by the Sugar Acquisition Act, 1915, passed by Parliament a week or two later.[1] It had been preceded, on 26th June, by an agreement with the Federal Government which was to take over the raw sugar from the Queensland Government.[2] By an arrangement effected on 16th July,[3] the Commonwealth acquired from the Colonial Sugar Refining Co., which had almost complete control of the refineries, its purchases of Javan sugar and arranged for the refining of all sugar and its sale.

The immediate post-war years produced a further crop of legislation for the regulation of prices.[4] Farmers and traders at last had the prospect of reaching more or less untrammelled those markets where prices had ruled tantalizingly high for a year or two. Though producers had been able to improve their returns from the local markets despite price-restricting laws, it was felt that this final soaring of values must in some measure be checked. The situation resembled somewhat that which had obtained in August, 1914. The most important consequence of

[1] It is not clear why legislation was necessary. Sect. 12 of the Meat Supply for Imperial Uses Act, 1914, which had been brought into operation on 2/2/15, provided that the Governor-in-Council might extend the Act by Proclamation to any foodstuffs, commodities, goods, chattels, livestock, etc. Meat was later acquired by the Government under the Sugar Act (*Queensland Government Gazette*, 9/12/15). The power given by the Act has been employed in the post-war years to acquire such things as seed cotton and sapphires, for the purpose of regulating their sale.

[2] Queensland: Parliamentary Papers, 1915–16, Vol. II, p. 853.

[3] Commonwealth Parliamentary Papers, 1914–17, Vol. V, p. 1065.

[4] Queensland: Profiteering Prevention Act, 1920. The Act continues in force and schedules of maximum prices are regularly issued by the Commissioner of Prices. New South Wales: Necessary Commodities Control Act, 1919; Profiteering Prevention Act, 1920. Victoria: Necessary Commodities Control Act, 1919. South Australia: Prices Regulation Act, 1919. Western Australia: Prices Regulation Acts, 1919 and 1920. Tasmania took no action when Commonwealth control ceased.

this legislation was a judgment of the High Court arising out of the Queensland Profiteering Act.[1] The Court held that the Act was unconstitutional. This judgment, in effect, rendered impossible the fixing of prices by the individual States and had an important bearing upon later legislation relating to marketing control. The proceedings before the new price-regulating authorities were amusing, rather than instructive; yet they had much significance in view of the claims of producers in later years to assured profits and to various forms of state assistance.[2]

All these operations—price-fixing, government trading, control of export, and the like—became inextricably interwoven, as the war progressed, with the various Imperial Government purchase schemes. But before these are discussed, it remains to notice the Australian wheat and sugar marketing organization.[3]

3. The Commonwealth Wheat and Sugar Schemes

If it be judged by the number of commissions of inquiry that were associated with it, the wheat-marketing scheme may be regarded as a classic example of the process of muddling through. Yet though mismanagement, misfeasance, and misfortune marred its operation, such a judgment would be too severe. In its conception, and for the most part in its execution, the scheme was a statesmanlike measure designed to meet a desperate situation with which private enterprise was wholly unable to cope. The embarrassing bounteousness of the 1915–16 harvest was in sharp contrast to the dearth of the previous year, for Nature had seconded the exhortations of governments to a quite unexpected extent. When the wheat-shipping firms in New South Wales were approached for advice in dealing with the situation, they suggested that the ships which had already been secured by the

[1] *W. & A. McArthur* v. *State of Queensland*, [1920] 28 C.L.R. 530.

[2] The Queensland Co-operative Dairy Companies' Association contended before the Commissioner of Prices in 1920 that the cost of production of butter was not less than 5s. per lb. After exhaustive inquiries, the Commissioner estimated it at 1s. 7d. in an average season (Queensland Parliamentary Papers, 1921, Vol. II, p. 1271 *seq.*).

The doctrine came to be widely accepted by price tribunals and other commissions of inquiry that local costs of production should determine prices, even when considerable surpluses were sold abroad at world levels.

[3] For the Federal Government's commercial activities, see Parliamentary Papers, 1917–19, Vol. V, p. 973; p. 985.

Federal Government should be handed over to them. When they had sold the quantity of wheat the vessels could carry, an equal amount of grain would be purchased from the farmers.[1] The wheat merchants would thus have operated in a buyers' market in Australia and in a sellers' market abroad, a combination of circumstances likely to yield a maximum of private profit for a minimum of public service.

The essential features of the scheme evolved at a conference of Federal and State representatives were as follows—

(i) The Commonwealth and the respective State Governments to control the receiving, financing, shipping, and marketing of the whole of the wheat crop of the wheat-exporting States in excess of food and seed requirements.

(ii) The State Governments to co-operate with the various interests in carrying out the details under (i) above. A Wheat Board or Wheat Commission, whose powers were in some cases merely advisory, in others executive, was appointed in each State for the purpose.

(iii) The duties of the wheat agents to be defined by binding agreements entered into with them.

(iv) A London Board, consisting of the High Commissioner and the Agents-General to arrange sales in consultation with the London representatives of the principal Australian wheat-shipping firms, these to receive the customary remuneration.

(v) Arrangements to be made with the banks for advances to growers on wheat delivered to the State pools. The liability was distributed among the banks on the basis of the proportion of the wheat crops hitherto financed by them, interest on advances being 5 per cent. The Commonwealth and State Governments guaranteed these advances.

The legal provision that was made for the operation of the wheat scheme was defective at many points. The scheme as a whole was neither authorized nor ratified by Federal enactment, nor even administered by regulations under the War Precautions Act. The Commonwealth Freight Arrangements Acts (1915 and 1917) gave the Treasurer authority to charter ships, but nothing

[1] See Report of the N.S.W. Department of Agriculture, 1915–16, p. 28 *seq*.

more. Victoria and Western Australia were the only States in which effective statutory provision was made.[1]

The South Australian Act did not purport to ratify the wheat scheme, being concerned rather with the regulation of local trade than with export.[2] It is true that New South Wales had the Wheat Acquisition Act of 1914, but that Act had in contemplation an emergency of a wholly different character, and was not applicable to the new circumstances. Though the Commonwealth could claim to be exercising the royal prerogative as to war, that plea was not available to an individual State that had not legislated, as the government of New South Wales found to its cost.[3]

As may be imagined, the creation of the necessary administrative machinery was no light task and was rendered somewhat more difficult by the feeling that the control of the trade would be but temporary, perhaps for one season only. Mismanagement resulted in some cases from the appointment of officials without commercial experience. Thieving from the country wheat stacks was not unknown, and dubious transactions relating to the supply of twine and cornsacks and to the sale of damaged grain were afterwards brought to light. In some cases, even, there was no authority for the appointment of officials nor for the audit of accounts.[4] It must be confessed that the wheat-marketing scheme gave little satisfaction to growers, as was evidenced by a continuous decline in acreage from about 12½ millions in 1915–1916 to about 6½ millions in 1919–20. Without it, however, the industry would undoubtedly have been ruined.

The causes of the dissatisfaction were in the main beyond the power of governments to remove. Under the circumstances, the

[1] Victoria: Wheat Marketing Acts, 1915–1919. Western Australia: Wheat Marketing Acts, 1916–1920.

[2] South Australia: Wheat Harvest (1915–16) Act, extended to 1919. See also S. Australia, Proceedings of Parliament and Papers, 1918, Vol. II, Paper No. 33. First Progress Report of the Royal Commission on the Acquisition and Disposal of Wheat, p. vii.

[3] The legal position with respect to the administration of the wheat scheme in N.S.W. is fully considered in *Joseph* v. *Colonial Treasurer of N.S.W.*, [1918] 25 C.L.R.32. In 1919, the N.S.W. Attorney-General admitted that his State had carried on the scheme without authority (Commonwealth Parliamentary Papers, 1917–19, Vol. IV, Paper No. 142, p. 52).

[4] Weevil and theft together accounted for the disappearance of 52,000 bags of wheat from the Enfield Depot (N.S.W.: Report of Royal Commission on the State Wheat Office, 1920, p. 17).

accumulation of stocks was inevitable and likewise loss from deterioration. Country storage in Australia is inadequate, the stacking of bagged grain in the open being widely resorted to at railway sidings. In normal times the wheat is removed before damage is likely to be done, but during the war appreciable loss ensued. Storage accommodation and material to protect the stacks had to be provided at considerable expense in every State concerned. Damage by flood waters, by a plague of mice in 1917, and by weevil involved much loss, yet it was not really great in relation to the total quantity.

The delay in making the second and subsequent advances on wheat, a feature which still militates to some extent against the success of the surviving pools, was the other chief source of complaint. On delivery, a certificate as to quantity and quality was issued to the grower, enabling him to secure the amount of the first advance from the bank. The certificates were transferable, were dealt in by speculators, and were even quoted on the Stock Exchange. Payments on the 1915–16 harvest were not substantially completed until 1918 and the final accounts of the Australian Wheat Board were not available until December, 1923, the last of the claims being met in 1924.

After the termination of hostilities, the compulsory pool was continued during the 1920–21 season under new statutory provisions.[1] The shortage of freight was still felt to be acute enough to make it dangerous to leave the handling of the crop to private traders. The distinctive feature of the 1920–21 pool was a guarantee by the Commonwealth Government of a return of 5s. per bushel. New South Wales, where the harvest had failed the previous year, gave a supplementary guarantee of 2s. 6d. per bushel. Since that time the guaranteeing of prices or of bank advances has been common. Its dangers were illustrated by a demand for the Commonwealth guarantee from an unexpected quarter. Rising prices had resulted in a record crop in Queensland. That State, though it had never participated in the Federal

[1] N.S.W.: Wheat Marketing Act, 1920. S. Australia: Wheat Marketing and Transportation Act, 1920. Victoria: Wheat Marketing and Transportation Act, 1920. W. Australia extended (1921) the operation of its Wheat Marketing Act. Queensland: Wheat Pool Act, 1920.

For statistics relating to the wheat scheme, see following page.

AUSTRALIAN WHEAT SCHEME: SUMMARY OF TRANSACTIONS

(Sources: Commonwealth Year Book, 1922; Australian Wheat Board Accounts; Report of Commonwealth Auditor-General 1923–24)

I. Wheat Pooled in Each State, 1915–16 to 1920–21
(1000 Bushels)

State	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21
N.S.W. . .	58,186	32,042	33,714	13,892	461	51,417
Victoria. .	59,177	50,407	36,233	23,029	12,349	38,953
S. Australia .	29,890	42,006	25,876	20,475	12,694	32,256
W. Australia .	14,929	13,822	7,529	7,624	9,707	10,740
Total .	162,182	138,277	103,352	65,020	35,211	133,366

II. Total Value of Pooled Wheat Sold in Each State
(£1000)

Particulars	N.S.W.	Vic.	S.A.	W.A.	Total
Oversea Shipments and Australian Wheat Board Flour Contracts . .	30,733	44,029	38,788	14,171	127,721
Local Sales . . .	23,982	21,270	8,351	6,589	60,192
Total . . .	54,715	65,299	47,139	20,760	187,913

III. Australian Wheat Board—Final Accounts
10th December, 1923

(a) *Quantities Shipped and Export Realizations*

Season	Out-turn	Amount	Average per Bushel
	Bushels	£	
1915–16	133,759,423	32,457,403	4/10·24
1916–17	82,770,880	21,278,608	5/1.698
1917–18	63,542,667	19,423,746	N.S.W. 5/11·191. Other 6/2·006
1918–19	42,509,767	13,125,116	N.S.W. 5/11·451. Other 6/2·161
1919–20	20,496,660	10,435,376	10/2·19
1920–21	113,182,410	43,941,314	7/9·176
Total	456,261,807	140,661,563	

(b) *Net Returns to Growers per Bushel*

Season	Vic.	N.S.W.	S.A.	W.A.	Gross Price of British Wheat
1915–16	4/10·64	4/10	4/7·5	4/7·819	1915 . 6/7
1916–17	4/4·65	3/3	3/3	4/3	1916 . 7/3½
1917–18	5/2·96	4/9·08	4/9	4/10·26	1917 . 9/5½
1918–19	5/6·61	5/1·09	5/4	5/7·81	1918 . 9/1
1919–20	8/1·88	8/4·22	9/1	9/6·44	1919 . 9/1
1920–21	7/8·81	7/6	7/4	7/9·59	1920 . 10/1

scheme, formed a compulsory pool of its own and claimed the guarantee, from which it could not constitutionally be excluded. After 1921, Queensland and Western Australia continued their compulsory pools, the latter till the 1921–22 season, and in New South Wales, Victoria, and South Australia voluntary pools were organized. Apart from this development, the wartime scheme had given producers' co-operatives an opportunity to demand a share in the trade as buying agents and merchants. This work they continue to perform, especially in Victoria and Western Australia, alongside the private traders. There was no crisis after the war in regard to the disposal of wheat. The industry had, in fact, faced its greatest dangers during the war; and, in any case, the world market for wheat had continued to function all along, so that trading had not been on an artificial basis.

The regulation of the sugar industry was a question of purely domestic concern to Australia. The initial steps, already considered, were taken in view of a shortage resulting from drought in 1915. After that year, the Commonwealth Government was as much concerned to keep local prices below world parity as to ensure adequate supplies. The new regime led to the setting up of elaborate machinery in Queensland for the regulation of the industry.[1] A Central Sugar Cane Prices Board and a Local Board for each mill were constituted. The Local Boards were given power to make awards determining the price to be paid to growers for cane, and growers and millers were given the right of appeal to the Central Board. It was further provided that if the labour conditions were unsatisfactory to the Minister, the award price for cane might be reduced.[2]

[1] By the Regulation of Sugar Cane Prices Act, 1915. Prior legislation (e.g. Sugar Growers Act and Sugar Growers' Employees Act, both of 1913) did not involve complete regulation. See also the Sugar Cane Prices Acts, 1922, 1931, 1932. The administrative difficulties are considerable, especially as regards the area from which each mill is to draw its supply of cane.

[2] *Cf.* Second Report of the Royal Commission on the Sugar Supply, 1921 (Cmd. 1300), p. 9: "One aspect of state control that has been specially impressed on us is the difficulty of fixing limits to it, once it is introduced. It cannot be limited to one branch only of a trade, say to import alone, and not to distribution; otherwise any advantage gained in the controlled branch is apt to be appropriated by the traders in other branches instead of redounding to the profit of the community at large."

The agreement between the Commonwealth and Queensland Governments for the purchase of raw sugar was renewed from time to time down to June, 1923, when the former expressed its unwillingness to continue the arrangement. The retail price was fixed at 3d. per lb. in 1915, raised to 3½d. in January, 1916, and eventually to 6d. on 25th March, 1920. The last increase was intended to recoup the Commonwealth Government for losses which had been accumulating since 1918. The loss in that year was wholly due to cyclone damage, which cost the sugar control £206,847. The net loss to 31st March, 1922, was £302,138, the yearly accounts showing the following results—

Season	Profits	Losses
	£ s. d.	£ s. d.
1915	14,274 3 4	
1916	529,220 12 6	
1917	29,686 18 9	
1918		174,978 7 9
1919		863,723 16 6
1920		951,492 15 6
1921	1,114,875 5 3	
Totals	£1,688,056 19 10	£1,990,194 19 9

Throughout the above period, the Australian crops furnished 74·8 per cent of the sugar requirements, but except in two seasons importation was necessary every year, as under—

Season	Imports	Australian Crop	Total Tonnage
1915	123,133	137,749	260,882
1916	73,981	173,200	247,181
1917	—	293,302	293,302
1918	57,038	186,913	243,951
1919	116,855	154,002	270,857
1920	104,940	175,258	280,198
1921	—	292,420	292,420
Totals	475,947	1,412,844	1,888,791

The gains to consumers during the period were considerable, as may be judged from the following comparison of local and import prices for raw sugar—[1]

Year	Average Landed Cost per Ton Imported Sugar	Average Price per Ton Paid for Australian Sugar
	£ s. d.	£ s. d.
1915 . .	25 16 5	19 9 4
1916 . .	26 1 0	20 6 4
1917 . .	—	22 16 10
1918 . .	24 4 0	23 9 3
1919 . .	44 6 2	23 8 0
1920 . .	60 19 6	33 9 9
1921 . .	—	33 12 1

These gains, however, may appear to have been hardly worth while in view of the fact that the continuation of the system of control has led to Australian prices in recent years being considerably above world levels.

4. Purchases by the Imperial Government

Introductory. The objects which the system of bulk purchase by the British Government had in view became increasingly complex as the war progressed. At first, as with meat, the aim was simply to secure supplies for military purposes. Later, the needs of the civil population had to be provided for. Even when transport had become a difficulty, the British Government continued its purchases, partly on account of subsisting contracts, partly in the hope of being able to relieve its pressing needs, and partly upon grounds of political expediency. Having withdrawn for service elsewhere a large number of insulated vessels regularly in the Australian and New Zealand trade, it could not very well allow production in these Dominions to wither away in consequence. Indeed, had it done so, the food shortage in Great Britain might have remained acute in the post-war years.

Although buying by the Imperial Government was resorted to early in the war, operations were during the first year or two on

[1] All the figures for sugar are taken from the Sugar Control Accounts, Commonwealth Parliamentary Papers, 1922, Vol. II, Paper 69.

a minor scale and of a somewhat tentative character.[1] British trade with South America had been disorganized on the outbreak of war and in response to the representations of the Imperial authorities, Queensland passed a Meat Supply for Imperial Uses Act (12th August, 1914). The statute declared that "all stock and meat in any place in Queensland are and have become and shall remain subject to this Act and shall be held for the purpose of and shall be kept for the disposal of H.M. Imperial Government in aid of the supplies for H.M. Armies in the present war." It was further provided (Sect. 12) that the Act might be extended to other commodities; and all title and property of the owners of stock and meat was to be changed into a right to receive payment therefor. The Act was not, however, put immediately into operation. The meat purchases in 1914, mainly from Queensland, were conducted very much on the lines of ordinary trading operations. The Agent-General for Queensland acted as a link between the meatworks and the British Board of Trade. In September, the Premier of Queensland arranged with a South Brisbane freezing-works to purchase and treat cattle and sheep for shipment to the Imperial Government through the Agent-General.[2] The representatives of the Australasian Dominions in London were also active in arranging sales of other produce to the War Office. The difficulties in the way of ordinary trading made these direct sales highly convenient to producers. Exporters generally began to realize that a new customer was in the market and the British authorities were frequently asked to entertain offers. It must be borne in mind, therefore, that all the inquiries did not come from the British end.

In March, 1915, purchases by the Imperial Government began in earnest and gradually embraced almost every commodity entering regularly into the export trade. In the previous month, the British Government had cabled to the Australian and New Zealand Governments stating that in view of the largely increased demands of the army and of the French Government

[1] It is not correct to state that the whole output of meat had been bought by the British Board of Trade as early as October, 1914 (Lloyd—*Experiments in State Control*, p. 200). Nor is it true that the price for meat was never varied throughout the war (*ibid.*, p. 295).

[2] Queensland: Report of Auditor-General, 1914–15, p. 27.

considerable purchases of meat would have to be made. It was also desired to keep down the price in Britain of the surplus not required for military purposes. Queensland was requested to put the Meat Supply Act into force and New South Wales enacted similar legislation. The other States and New Zealand did not think statutory powers necessary. New Zealand did, indeed, establish a new state department to deal with Imperial supplies.[1] The method generally adopted in arranging sales was to call a conference of the producing and trading interests under the aegis of government and there settle the details of the bargain. These meetings, it is suggested, had a greater significance than might be thought. For one thing, the proceedings revealed that even with export rigidly controlled and the appeal to patriotic feeling, agreement and unanimity were not to be secured as a matter of course.[2] It is true that, as the war progressed and new bargains had to be struck and contracts extended to a growing list of commodities, arrangements tended to be more easily effected.[3] But this was due, in the main, to improvements in some of the terms of sale and to the haunting spectre of the freight shortage. The excited exchange of telegrams between governments and the vehemence with which certain producers and traders at times expressed themselves are things to ponder when suggestions for mass-trading are being so freely made. One other aspect of these conferences is of interest. It was a novel experience to find representatives of diverse sections of the various trades met together, and these contacts were not without significance for the export control movement after the war.

When the scale of buying was extended to cover the whole

[1] The Imperial Meat Supply Department, afterwards the Department of Imperial Government Supplies, which was a model of efficiency. It continued in being till the last of the contracts terminated, undertook the provisioning of military camps in New Zealand, and administered the scheme under which local butter prices were kept below export parity.

[2] See N.Z. Parliamentary Papers, 1922—H 38b, for an account of the negotiations regarding wool.

[3] Breach of agreement was rare, but not unknown, e.g. one Victorian firm of exporters failed to fill the insulated space allotted to it for May, 1915, in anticipation of higher prices in June. When the State Government, in the first week of June, prohibited export on account of local shortage, another exporter shipped meat in defiance of the Order (Report of Royal Commission to Inquire into . . . Supply of Frozen Meat to H.M. Imperial Government—Victoria: Parliamentary Papers, 1915, Vol. III, p. 9).

export surplus of each commodity, the arrangements which had been arrived at informally were generally confirmed by proclamation and administered by regulations. There were no insuperable difficulties of organization and administration. The fitting of grades and qualities of meat and wool to a standard schedule was a knotty problem, but not beyond the capacity of the experts. The operations under each contract will now be briefly reviewed in order to shed light on the problems encountered.[1]

The Meat Purchases. Though all the Australasian Dominions, except Tasmania, participated in the sales to the British Government, Queensland and New Zealand were the principal sources of supply. For a great part of each season, indeed, exporters were unable to operate in Australia (except in Queensland), as local prices were too high.[2] Rising costs had contributed to this increase, but initially it was due to the fact that losses of stock in the 1914–15 drought were equal to more than twelve months' meat supply for Australia. The strict control of the meat industry in Queensland also contributed to the rise. Despite the tendency for export to be restricted, the prices offered by the Imperial Government were regarded as quite satisfactory. Graziers, indeed, looked upon the contract as a guarantee for two or three seasons and as a welcome stabilizing influence. The Government of Queensland was able to stipulate for supplies of meat[3] from the freezing-works at prices below the export level, but retailers and consumers in the eastern States frequently complained that the position was reversed. An upward revision of prices was effected in New Zealand on 20th October, 1916, and from then on until

[1] An excellent account of the New Zealand purchases is given in the annual reports of the Department of Imperial Government Supplies. For Australia, information is scattered widely through Federal and State Parliamentary Papers, and a complete statistical account cannot be formulated from the published information.

[2] Inter-State Commission of Australia: Prices Investigation, No. 2 Report, 3/10/17; No. 4 Report, 20/12/17; No. 7 Report, 14/5/18. In the last Report, the Commission found that the grazing industry had never been so prosperous, especially for the small farmer. Prices of meat for home consumption in New South Wales, Victoria, Tasmania, and S. Australia were about 100 per cent, and Imperial contract prices (after deducting ⅜d. per lb. for freezing) about 65 per cent higher than in 1913, when the available supplies were about the same.

[3] For the butchers' shops operated by the State only. For the initiation of the meat purchases from New Zealand, see *N.Z. Gazette Extraordinary*, No. 32, 3/3/15.

the Australasian contracts terminated in 1920 no change was made. Initially the terms of payment were for cash against shipping documents. It was not till 1918 that the Imperial Government arranged to make advance payments on meat in store and defray the cost of storage after the first month or so. Producers, in the face of accumulation, had begun to demand that the meat should be bought "on the hooks," but they had an exasperating wait before their demands were conceded.[1] The treatment of meat surplus to army requirements was also a source of dissatisfaction. In the earlier period of the contract, exporters were allowed to "tag" carcasses (principally lamb and mutton), and these were passed on to agents in London nominated by them and thence distributed to the trade. This arrangement was made in order to enable certain firms to maintain their connexion. In New Zealand it was claimed that it led to uneconomically high bids for stock by firms who had a trade connexion in London and who received a rebate of selling commission from their agents. It was claimed further that the system facilitated the operations of "the meat trust," and that retailers in England were enabled to pay more for Argentine meat owing to the cheapness of the New Zealand surplus passed on to them by the Board of Trade.[2] All these objections were eliminated by the thoroughgoing control of trade and prices that followed the advent of the Ministry of Food.

Dairy Produce Purchases.[3] These began, characteristically, with the Board of Trade negotiating on behalf of the War Office for one-third of the export surplus of New Zealand cheese in the 1915–16 season. This contract was in force from October, 1915, till October, 1916. For the 1916–17 season, the whole export surplus was requisitioned, though the arrangements were not

[1] Congestion at the meatworks and the consequent necessity for keeping the sheep and lambs in the flocks were made more tolerable by the remunerative prices for wool. Storage space for wool was less difficult to come by.

[2] See N.Z. Parliamentary Papers, 1916, H-28 (Particulars of Sale and Disposal in Great Britain of Imperial Meat Purchases); 1917, I-7 (Report of Meat Export Trade Committee). A recommendation for post-war control, in collaboration with the British Government, was brought forward in this committee.

[3] Some account of these is given in H. F. Rankin—*Imbucase: The Story of the Butter and Cheese Import Committee of the Ministry of Food*, Edinburgh, 1922. See also *N.Z. Gazette*, 16/1/17, 5/2/17.

finalized until January, 1917. Queensland also participated, beginning with offers by the Queensland Cheese Manufacturers' Association[1] as early as 9th August, 1916. The Brisbane Butter and Cheese Shippers' Committee also made an offer at the end of December, but by that time the British Government had decided to commandeer all surplus Australian cheese. The Australian price was ¼d. per lb. below that for New Zealand, with a proviso that if the quality were found equal on arrival, an adjustment would be made.[2] In 1915–16, the terms of payment were cash on shipment. The next season, provision was made for advances up to 90 per cent after the cheese had been in store twenty-eight days, or full payment if it were shipped before that time. Makers who managed to secure early shipment thus gained a double advantage: they received early payment in full and loss of weight through shrinkage was less. The purchases were extended from season to season until 1919–20, when they ceased.[3] The great bulk of the supplies was obtained from New Zealand, where production continued to increase throughout the period. The Australian quota was never very considerable, the total supply in the 1917–18 season being worth £274,382, as against £5,024,020 in the case of New Zealand. In both Dominions, the price paid was sufficient to stimulate a considerable increase in production. For the first time in history, for example, New South Wales exported a considerable quantity.

The butter purchase was on a somewhat different footing from the rest in that it was effected to meet civilian, and not military, requirements. Like the wool scheme, it was thorough-going from the start and embraced the whole exportable surplus. Beginning with the 1917–18 season, it was extended ultimately until 31st March, 1921. In Australia, apart from price-fixing, strict control of the butter industry had been necessitated by drought before the 1916–17 season closed. It is possible to trace back to this small beginning the complex organization for regulating the trade

[1] The quantity offered was 400,000 lb. monthly. One of the problems confronting the Board of Trade in handling Queensland cheese was the lack of standardization of size.

[2] This was afterwards done. The experts of the Departments of Agriculture supervised the shipments on behalf of the Imperial Government and ensured that the conditions were adhered to.

[3] See *N.Z. Gazette*, 4/2/18, for working arrangement.

in butter which has developed in the Commonwealth in recent years. Remunerative prices overseas had stimulated export in the spring of 1916, and when dry weather supervened, a shortage of winter supplies appeared imminent. Accordingly, a winter butter pool was organized by the Federal Government.[1] In each exporting State, a Butter Advisory Committee had been previously set up to apportion the remunerative export trade among manufacturers. These Committees sent representatives to the Commonwealth Winter Butter Pool Committee, whose function it was to ensure an adequate supply during the ensuing winter. Every manufacturer was required to contribute to the pool such quantity of butter as the Committee deemed necessary, the price[2] being fixed by the regulations cited and existing contracts of sale being voidable on the Committee's recommendation. The same difficulty with respect to the disparity between local and export prices had arisen in New Zealand before government buying began. It was estimated that, down to October, 1916, factories supplying the local market had done so at a disadvantage of from ½d. to 1⅝d. per lb.[3] A maximum local price of 149s. 4d. per cwt. was therefore proclaimed and export prohibited save under licence. Licences were granted only if a levy of ⅜d. per lb. of butterfat had been paid, the proceeds of which were used to compensate local sellers.[4]

The contract for the 1917–18 season provided that 50 per cent of the profits from re-sale by the Imperial Government should be returned to the producers.[5] In Australia this provision did not lead to any complications, for the State Advisory Committees continued to function and to apportion the more and the less remunerative trade. But in New Zealand, despite the levy, factories threatened to cut off local supplies. In consequence, it was agreed, with three dissentients, to pay the share of profits, £307,997 in all, into an equalization fund for the benefit of the

[1] Commonwealth Statutory Rules, 1917, No. 99: War Precautions (Winter Butter Pool) Regulations of 30/4/17. The winter butter pools continued until 1920.

[2] 149s. 4d. per cwt. The average London price for the year ended 30/6/17 was 197s. 10d. per cwt.

[3] *N.Z. Journal of Agriculture*, November, 1916.

[4] *N.Z. Gazette*, 13/10/16.

[5] For the working arrangements under each contract, see *N.Z. Gazette*, 4/2/18; 19/3/19; 4/11/20.

local trade. Provision for the establishment of such a fund was included in the terms of purchase for 1918–19, but from then on the government assumed the liability of equalizing returns by a direct subsidy out of revenue.[1] Meanwhile, in the Commonwealth, further winter butter pool regulations were made, giving official status to the State Advisory Committees; and, later in the year, a Commonwealth Dairy Produce Pool Committee was constituted to control the local and export trade.[2]

The prices paid by the Imperial Government did not serve to stimulate production in either Dominion, even though advances of 90 per cent were made after butter was in store twenty-eight days and storage in excess of three months was paid. It is true that production in Australia is dependent upon the vagaries of the weather,[3] but the decline in the supplies from New Zealand is significant.[4] The desperate shortage and the strong position of producers caused the Ministry of Food to run to the other extreme and offer extravagantly remunerative prices for the 1919–20 contract.[5] The reactions upon land values in Australia and New Zealand were incalculable and have had much to do with the difficulty of economic readjustments since 1921.[6]

Purchase of Sundries. These concerned in the main jams, canned fruits, dried fruits, condensed milk, frozen rabbits, and preserved meats. Of the large purchase of Australian rabbits in 1917, amounting to over one million crates (15 million pairs) and valued at about £1,275,000, a considerable proportion served ultimately as fertilizer, and not as food. Sales of jam exceeded 30 million tins, and Tasmanian apple-growers, who suffered severely

[1] N.Z. Appropriation Act, 1919, Sect. 16; Appropriation Act, 1920, Sect. 12.

[2] Commonwealth Statutory Rules, 1918: No. 79, Winter Butter Pool Regulations; No. 278, Dairy Produce Pool Regulations. The last-named regulations were continued in force by the Commercial Activities Act, 1919. By the Butter Agreement Act, 1920, statutory authority to control exports up to 31/3/21 was conferred upon the Commonwealth Dairy Produce Pool Committee.

[3] In the 1919–20 season, on account of drought, the Australian price rose above the Imperial contract price, first to 220s., then to 228s. 4d., as against 175s.

[4] 724,695 boxes in 1917–18; 667,227 in 1918–19; and 553,871 in 1919–20.

[5] 280s. per cwt. for N. Zealand and 274s. for Australian, as against 181s. and 175s. respectively for the two previous seasons.

[6] N. Zealand shipments under the 1920–21 contract (part season) were 1,202,717 boxes.

from the lack of insulated tonnage, were assisted by the sale of 500 tons of evaporated fruit to the Imperial Government in 1918. These minor operations evidence the wide ramifications of the bulk purchase schemes. In later years, they contributed not a little to the belief that in times of economic, as distinct from military crisis, governments could and should afford relief to producers. But for this legacy of war it is unlikely, for example, that the Commonwealth would have been led to embark upon the costly fruit-pooling schemes of the early post-war years.

Sales by the Australian Wheat Board to the British Wheat Commission. These transactions take rank as the most considerable in the history of the grain trade. The Commonwealth wheat scheme was not initiated with the object of effecting sales to governments abroad, yet it is evident that without such an outlet the growers would have been ruined. Here again what was wanted was a buyer who would pay for the purchases even though they remained beyond the reach of the consumers. The Australian Wheat Board had a selling agency in London, but overseas disposals did not make much impression upon the unprecedented harvest. In September, 1916, it was estimated that about 1½ million tons of old-crop wheat remained unsold in Australia. About this time, the British Wheat Commission, which acted as agent for the Allied Wheat Executive, was of the opinion that, despite their remoteness, Australian supplies were both assured and reasonably priced. However, the growing scarcity of tonnage threatened to cut off this wheat, for more than sixty vessels had to be diverted in January, 1917, from the Australian trade to the North Atlantic. But before the freight situation became acute, the Wheat Commission had begun its purchases. By a contract dated 3rd October, 1916, it bought 500,000 tons at 4s. per bushel f.o.b., payment of £3,700,000 being made on 29th January and of the balance, £33,328, on 7th July. Under this contract, losses due to weevil were for the account of the Australian Wheat Board, but this provision was modified at the end of the year, when the Wheat Executive agreed to bear all losses due to deterioration of grain allocated to its contracts. Negotiations for the purchase of a further 3,000,000 tons of wheat were completed in December, 1916, the contract being signed on 27th April, 1917.

The price was 4s. 9d. per bushel, and the total amount involved £26,600,000. Payment was made as to £18,000,000 by quarterly instalments of £2,000,000 from 1st February, 1917, and as to the balance, by weekly instalments of £1,000,000 from 1st September, 1917. About half the quantity went ultimately to the French and Italian Governments. The bulk remained for long unshipped[1] and serious difficulties arose in connexion with damage to the grain. The final contract, which was entirely for British account, was entered into on 3rd July, 1919. Under it 1½ million tons were bought at 5s. 6d. per bushel, the total commitment being £15,400,000. When possible, the Australian Wheat Board effected sales on c.i.f. terms through its agency in London, and smaller purchases were made in this way by the British Wheat Commission, the French Government, and others. The Board also arranged for the gristing locally of large quantities of wheat, chiefly on behalf of the Wheat Commission. Local milling had many advantages, apart from the direct benefit to the industry. It saved freight space, diminished the risk of deterioration, and furnished large quantities of feeding offals. Considerable amounts of wheat were made available to neutrals, and in 1918, when shortage threatened owing to heavy exports from the United States to Europe, some 125,000 tons were dispatched to that country. The Government of India was also a purchaser, taking 40,000 tons in 1919 through the Wheat Commission.

The Wool Purchase Scheme. It is appropriate to consider at this point the legal status of the various bulk purchase schemes, for it is discussed in a judgment of the High Court of Australia on a claim under the wool scheme.[2] The Court held *inter alia* (i) that no contractual relation was created between the Commonwealth Government and the suppliers of wool whereby that Government became either the purchaser of the wool or the agent of the suppliers in respect of it; (ii) that the Commonwealth Government did not either requisition the wool or compulsorily acquire it for the purposes of the war; (iii) that the arrangement between the Imperial

[1] At the end of 1917, about 2,385,000 tons; June, 1919, 750,000 tons.
[2] *John Cooke & Co. Pty. Ltd. and Field* v. *The Commonwealth and the Central Wool Committee*, [1921–22] C.L.R. 394. The judgment traverses the whole wool scheme. The view taken by the High Court was confirmed by the Privy Council.

Government and the Commonwealth Government to acquire the wool clip was one of a political nature, not cognizable by courts of law, creating no legal rights or duties, and depending entirely for its performance upon the constitutional relationship between those governments and their good faith towards each other; (iv) that no enforceable contract of purchase and sale existed between the Imperial Government and the suppliers of wool. As the other purchases were on a similar footing, it is reasonable to assume that their legal status was of a like nature.[1]

The British Government had at first proposed to purchase only crossbred wools, as being suitable for military requirements, but the Commonwealth Government was unable to consent to this course, as the great bulk of the Australian clip would have been left to take its chance of freight space and markets and discrimination between growers would have resulted. Eventually it was agreed to purchase the whole of the Australasian surplus at a price 55 per cent in advance of that ruling in 1913–14.[2] This worked out at an average of 15½d. per lb. of greasy wool. It was objected in New Zealand that the basis year was not an equitable one, because values of coarse wool had ruled low then as compared with finer wools. However, the circumstances would not allow of consideration being given to such matters. Negotiations were not completed until part of the 1916–17 clips had been disposed of at auction, but the British Government requisitioned this wool

[1] The courts have taken a different view of the relations between the individual States and the producers within their borders. It was held in *Weldon* v. *Smith*, [1924] A.C. 484, that a contractual relation existed between the Government of S. Australia and the wheat-growers, and a claim by the latter for damages on account of the Government's negligence was upheld. Under the S. Australian Wheat Harvest Acts, the grower signed an agreement agreeing that in consideration of the Government's receiving and marketing the wheat on his behalf, he would accept the conditions and actions of the Government unreservedly in relation thereto. The Privy Council held that statutory powers, when exercised at all, must be exercised with due care. (*Cf. Robinson* v. *S. Australia*, [1929] A.C. 469.) In *The Crown* v. *McNeil*, [1927] A.C. 380, the W. Australian Government, as smelter, was held liable for interest on overdue payments to suppliers of ore. See also *Joseph* v. *Colonial Treasurer of N.S.W.*, [1918] 25 C.L.R. 32, in which the Court refused to allow the State to plead the royal prerogative as to war in order to escape the consequences of its acts, the prerogative being exercisable only by the Governor-General of the Commonwealth.

[2] The average price of the Australian clip for several seasons prior to the war was from 9¼d. to 9¾d. per lb. of greasy wool. The contract price was about 10 per cent below the current market price.

on its arrival on the basis of the price agreed upon.[1] It was provided that half of the profits realized by the sale of wool for other than military purposes should be returned to the growers.

The success which attended the operation of the wool scheme in Australia and New Zealand may be attributed to three factors —the ability of those who administered it, the excellence of the existing marketing organization, and the favourable terms upon which the clip was purchased. The importance of the last factor is apt to be overlooked by those who marvel at the way in which the apparently insuperable technical difficulties were overcome. For, in the 1919–20 season, despite the success which had been achieved, some wool was withheld from appraisement, because growers thought that the returns (even with the addition of the share of the profits) would be less under the scheme than in the free market that was about to be restored.[2]

The Dominion Governments acted as the agents of the Imperial Government. In Australia, the Prime Minister was in control of the scheme, which was administered by the Central Wool Committee acting under his direction. This Committee was composed of nine members, representing the growers, brokers, buyers, scourers and fellmongers, and had an independent chairman who was the government nominee. It had the assistance upon technical matters of an advisory board of wool experts. In each State, there were similar committees, with sub-committees to advise regarding sheepskins. The Prime Minister, on the recommendation of the Central Committee, appointed sworn appraisers in each State, whose business it was to determine the value of each lot of wool according to the percentage of clean, scoured wool present, spinning qualities, length and condition of staple, etc. Of the three appraisers who valued each lot, one represented the selling house on behalf of the grower and two represented the Commonwealth Government. The ramifications of the wool trade made it necessary to exercise the greatest care in appointing

[1] About one-quarter of the Australian clip, mainly inferior wools, had been sold or consigned.

[2] For the wool scheme in Australia, see Commonwealth Statutory Rules, 1916: War Precautions (Sheepskins) Regulations, No. 321; War Precautions (Wool) Regulations, No. 322. These regulations were continued in force after the war by the Commercial Activities Act, 1919.

appraisers, so that none should act in a dual capacity. The duties were onerous, not only on account of the large number of valuations that had to be made, but also because of the difficulty of assigning such values to each of a wide range of qualities as would give an average equivalent to the average price to be paid.

Naturally, the organization that was set up did not immediately attain the high-water mark of efficiency. For example, the number of categories into which wool was divided was at first 380, but was eventually increased to 848, as precision in valuing became greater. A system of type ledgers was introduced, showing the amounts of each of the various qualities of wool and giving a complete analysis of the clips such as had never before been available. Apart from its usefulness in securing accurate valuation, the system had other advantages. It ensured more equitable returns to growers of small clips who could not under the auction system effect a sufficiently detailed classification of their wool and thus obtain full value for every type. It also made it possible to economize shipping space, for the Central Wool Committee was able to furnish just those qualities which the British Government and the Allies required at any particular moment. Even to the initiated, the skill with which values were adjusted in a *barême* running into 848 types was something to wonder at. To appraise, for example, over half a million separate lots of wool so that the average price per pound worked out at 14·98d., as was done in the 1918–19 season, was a task that exhibited the highest development of the valuer's art. It was essential that a high standard should be attained, for the determinations of the appraisers were final.[1]

Though the Wool Regulations prohibited the sale of wool or tops except to the Central Wool Committee and gave the Prime Minister power to require wool to be made available for appraisement, there was no necessity to resort to forcible acquisition. The Committee endeavoured to proceed in all things by the method of agreement. The services of the existing trade organizations

[1] The appraisement of sheepskins proved most difficult. In 1918–1919, the Central Wool Committee suspended appraisement and purchased in the open market such skins as were required by the Director of Raw Materials in London.

were largely availed of and the methods and conditions of allotment for appraisement and of weighing, sampling, and displaying wool so allotted were agreed upon by a majority of the wool-selling firms registered with the Central Wool Committee as appraisers. The cataloguing and displaying of wool in the ordinary manner made it possible for growers to continue to see the clips and compare qualities, values, and get-up. The Central Committee was anxious that there should be no decline in the efficiency of the industry, either on the production or on the merchanting side. It required growers to comply with its instructions and to deliver their wool for appraisement in accordance with the recognized standards.

The activities of the Central Wool Committee covered a wide field. In addition to drawing up a table of limits as a basis for the valuation of the various types of wool, it was successful in standardizing catalogues and other documents, such as invoices, weight notes, etc. It had to arrange for supplies of requisites to growers and merchants when shortage threatened owing to the abnormal conditions. The accumulation which resulted from lack of shipping made it necessary for the Committee to provide additional storage accommodation.[1] It supplied the needs of local manufacturers on favourable terms and encouraged the top-making and scouring sections of the industry. When the top-makers, whose production was aided by a Commonwealth bounty, as well as by the low price at which they bought raw wool, sought to engage in export trade, the Committee had to resist their claims as likely to be fatal to the wool scheme and tantamount to a breach of faith with the British Government. On the other hand, in order to save freight space, wool scourers had been encouraged to extend their plants, and the Committee, against the wishes of the Imperial authorities, continued to allot them scouring wools after the war had terminated. Another difficulty arose in connexion with the Western Australian clip, the major portion of which had hitherto been consigned abroad for sale. The leading wool houses in Fremantle agreed to extend their accommodation and arrangements were made for appraisement

[1] Sir John Higgins estimated the saving effected by the erection of storage sheds at £750,000.

to be undertaken at Albany and Geraldton as well. Such North Queensland wools as had not normally been sold in Australia were now required to be sent to one of the eastern centres, special consideration being given to the matter of the additional freight charge involved. Pressure was meantime put upon the Central Committee by such bodies as port authorities and chambers of commerce to increase the number of appraisement centres, a movement that was steadily and rightly resisted. The Committee also rejected the claim that all who had had any prior connexion with the merchanting of wool should now be found employment. It was possible to economize the services available, and for the greater part of the period during which the scheme was in operation, a charge of ⅝d. per lb. sufficed[1] to cover handling costs from warehouse to ship, remuneration to wool and shipping appraisers, and expenses incurred by the Commonwealth Government as agent for the Imperial Government. In contrast with the wheat scheme, sales of interests in the wool pool were not permitted. This was due mainly to the fact that the sales of the two commodities were financed on a different basis. The Australian Wheat Board had to await the results of its operations before it could substantially complete payments to growers, whereas (apart from the element of prospective profit) the British Government paid for the wool clips without delay. Payment for wool was in fact made upon the usual trade terms, i.e. within fourteen days of appraisement, but 10 per cent of the price was withheld for possible adjustments.

In New Zealand, all wool was requisitioned by Proclamation in exercise of the royal prerogative in time of war.[2] At first the arrangements were in the hands of the Minister of Agriculture, but in 1917 it was provided that the Controller of the Department of Imperial Government Supplies should act on behalf of the government. Certain firms were appointed to act as the government wool-brokers and growers were required to deliver their wool at their stores for appraisement. The centres at which valuing was done eventually numbered 15, as against the eight

[1] Increased from 1918–19 to ¾d. per lb. in both Dominions. In Australia, a profit on this charge exceeding £1,000,000 accumulated in favour of the growers.

[2] *N.Z. Gazette*, 21/12/16; 15/10/17; 2/12/18.

auction markets normally in operation. Wool was appraised by two valuers, one of whom represented the Government. In the case of disagreement, a supervising valuer appointed by government was called in. This arrangement was modified in 1917 by a provision for appeal to an umpire by the grower against the supervising valuer's decision. A scale of prices, representing the average of those prevailing in January, 1914, was laid down as the basis of valuation, with 55 per cent additional. The government refused wool which was unmerchantable or not of the nature or quality required. The delivery of wool to the stores was to constitute a binding contract between the grower and the Crown, subject to the foregoing right of rejection. Failure to deliver wool rendered it liable to seizure. The brokers were to make no charges to growers, except when re-packing was necessary, and were to provide free storage for twenty-eight days, after which the government became liable. As in Australia, the handling of the clip through one agency made a complete analysis possible. This analysis, published for the 1917–18 season, revealed that 431 separate types had been distinguished. As the New Zealand clips consisted almost entirely of crossbred wools, this detailed classification compares favourably with that effected in Australia. In the 1919–20 season considerable amounts of wool were withheld from appraisement by growers, who were either dissatisfied with the conditions of the contract or believed that they stood to gain by waiting for de-control. No action was taken against them, but subsequent events proved that they had taken an altogether too sanguine view of market prospects.

In neither Dominion was the method of arriving at and apportioning the share of the profits adequately considered at the time the arrangements were made. It was thought, apparently, that the profits on each season's wool would be kept distinct, but this the British Government did not find it possible to do. Confusion arose in consequence, because some growers had transferred their properties during the currency of the contracts. The mode of arriving at the amount of profits occasioned some heartburning, as did also the suggestion that the British Government should have some set-off out of profits already earned against possible losses in finalizing sales. In the result, growers were treated with

great generosity and gained much from the very moderate rates of freight which the British Government charged against wool. It was agreed eventually to pay profits on the basis of a percentage rate on wool supplied, calculated on the appraisement value, irrespective of the date of delivery.

The cessation of government buying left the industry with problems of great difficulty. Before the end came, many producers were becoming restive. It was apparent then, and the conclusion is reinforced by subsequent experience, that growers would be content to sell to governments only if the price were always at least as high as in uncontrolled markets. This explains both the urge to be freed from the stabilized prices of the bulk-purchase system and the desire to return to that system when markets are depressed. The wool scheme fulfilled its purpose admirably, but hardly furnished a basis for a system of distribution in normal times.[1]

5. Problems of De-control

De-control involved not only the termination of bulk purchases but also the cessation of price-fixing in Great Britain and the release of the distributive trades from government regulation. It left in its wake serious problems of accumulation and disorganized markets. The provision to continue government buying for a year or more after the peace was intended to relieve producers of anxiety and to ensure supplies for British consumers. It was hoped that, by the time the contracts terminated, markets would have moved once more into smooth waters. But before the end came, disconcerting fluctuations made it impossible to follow a fixed line of policy. The world price of some commodities, e.g. butter and cheese, rose at times far above the contract rates and at others fell below. In these circumstances, opinion among producers as to the desirability of de-control fluctuated violently. The Ministry of Food found it difficult to negotiate the final contract for butter, as producers desired a free market in the United Kingdom. They had already become restive owing to the fact that, in 1919, Canadian cheese had been allowed a free

[1] The total amount of wool appraised was for Australia 2487 million lb., and for New Zealand 783 million, the total values being £160,594,206 and £49,226,640 respectively.

market at prices from 30s. to 40s. a cwt. above their contract rates. Hence to secure agreement to the extension of the butter purchase for a further nine months, the British authorities were compelled to offer the equivalent of the ruling free market price of cheese.[1] The de-control of that commodity was not opposed except by some traders who held stocks and were anxious that the fixed retail price should continue until they had cleared them. On the other hand, meat producers were anxious that the British Government should continue the purchases and stimulate consumption by reducing the controlled price in the United Kingdom. Some wool-growers took the opposite view and, despite the fact that their interests were safeguarded by the sharing of profits, clamoured for the lifting of all restrictions. Producers generally took a shortsighted view of the future trend of markets and failed lamentably to recognize that high prices, as well as low, would inevitably react disastrously upon their industries. Before the slump, some were inclined to take up an arrogant attitude as to what the consumer would be made to pay. It was this spirit that engendered the view after 1921, that heroic measures, intended to restore the price level, could be adopted with success.

The accumulation of enormous stocks of Australasian wool, meat, and butter raised problems of which the seriousness was hardly realized until markets broke. It was felt that these stocks would move off readily in a world that had been crying out for goods for five years. But the stimulus to demand had been largely artificial, and need and purchasing-power do not necessarily go together. In any case, the uncertainty that would be bound to prevail during efforts to determine the equilibrium between supply and demand under the new conditions ought to have been allowed for. Neither producers not traders could, indeed, propose prices that were likely to bear any relation to the facts. For the moment, buying and selling were purely speculative operations and market risks were transferred almost wholly to the producer. Eventually arrangements were made for the orderly liquidation of wool stocks and the Commonwealth Government continued

[1] Continental and Argentine butter was being bought on occasion at prices below the final Australasian contract rates, but the quantities were meagre.

the compulsory wheat pool, but in the case of meat and butter no effective steps were taken to minimize fluctuations and do not appear to have been even suggested in the case of the former commodity.

A temporary extension of the New Zealand meat contract was arranged to include all meat put into store up to the end of 1920;[1] and the Queensland Government continued its buying from the local meatworks until 30th November, 1920.[2] The intention was to stabilize the position for producers while liquidation was being rapidly carried out. Accumulation had attained dangerous proportions. It has been stated[3] that in May, 1920, upwards of 200,000 tons of Australian and New Zealand meat were on the water or in store. The quantity was in fact far more considerable. Statistics to illustrate the congestion in Australia are not available, but the accumulation of Queensland beef was overwhelming. Meat in store in New Zealand on 31st May, 1920 amounted to about 200,000 tons, with upwards of 15,000 tons afloat.[4] The total import of the United Kingdom in 1913 was 721,000 tons, in 1917 (the lowest year) 433,000, and in 1919, 528,000. By 1920, it had reached 813,488 tons, followed by 943,744 tons the next year.[5] Supplies from Australasia formed an abnormally large proportion of the total.[6] In addition, consumption had decreased, it was estimated, owing to rationing and the diminution of waste, by as much as 30 per cent.[7] The effect upon prices of accumulation and change in demand was aggravated by deterioration, for some of the meat had been in store over two years. The situation that was threatening might have been foreseen, because arrivals of meat in the United Kingdom had become unduly heavy in the last quarter of 1919, and at the end of that year 150,000 tons were in store or in ships lying in port. In the early months of 1920, the controlled price of beef and mutton declined slightly,

[1] Report of the Inter-Departmental Committee on Meat Supplies, Cmd. 456/1919, p. 15.
[2] Report of Auditor-General for Queensland, 1920–21, p. 25.
[3] Coller—*A State Trading Adventure*, p. 249.
[4] Report of N.Z. Department of Imperial Government Supplies, 1921–22, p. 3.
[5] Weddel's *Review of the Frozen Meat Trade*.
[6] The total export of meat from New Zealand in 1920 was 228,200 tons; the average, 1922–27, was 158,000 tons.
[7] Weddel's *Review of the Frozen Meat Trade*, 1919, p. 3.

but it was stabilized from May of that year until de-control came at the end of March, 1921. Prices of Australasian beef then immediately declined and, by the middle of the year, stood at about 50s. per cwt., or less than half the final controlled price. Mutton and lamb prices did not reach low levels until the last quarter of 1921, when the market for all meat became thoroughly demoralized.[1] Producers were now selling new season's meat in a market congested with old stocks and confidence among buyers was not unnaturally altogether wanting. No one could say where values would settle down and consequently there might be a considerable margin between the price paid for stock and the final realization at Smithfield. The market prices do not, in fact, represent adequately the loss to producers. The return for lambs fell as low as 4½d. per lb. and yet, early in 1922, when they reached London, the market had recovered and up to 1s. was realized. These marked fluctuations and adventitious gains were responsible for the initiation of the meat-export control movement in New Zealand, but the worst was over, and from January, 1922, the course of prices remained on the whole satisfactory.

A somewhat similar experience befell producers of butter and cheese, though the decline in cheese prices was largely a reflection of the break in the butter market and was not due to accumulation of stocks. The Ministry of Food had, in fact, only about 3500 tons of cheese to dispose of when it decided to relinquish control. Its butter stocks constituted a more serious problem. On 6th April, 1921, all imported provisions were freed from control. Government butter, however, continued to arrive at a much later date, as the final contract did not terminate until 31st March, 1921. In addition, supplies under this contract were twice as heavy as anticipated. By mid-December, some 20,000 tons remained to be cleared in competition with the new season's output. The Dominion Governments asked that this butter should be held off the market, but the Board of Trade was unable to acquiesce and offered instead to allow them to buy it back at less than half-price. During the inevitable delay that ensued

[1] Comparative prices for Australian meat—
Beef: 18/3/14, 40s. 10d. per cwt.; 10/3/22, 42s. per cwt.
Mutton: 7/1/14, 42s. per cwt.; 16/12/21, 56s. per cwt.
Lamb: 7/1/14, 58s. 4d. per cwt.; 16/12/21, 60s. 8d. per cwt.

while producers were being consulted, the trade offered to take over the stocks at a slight advance in price (112s. to 115s. per cwt.). In consequence of this transaction, offers for new season's butter fell to a very low figure and some operators who bought forward heavily at this time without taking any of the stale government stocks reaped large profits when the market rapidly recovered. This crisis, combined with the fact that prices for dairy produce, though far above those obtaining before 1920–21, remained considerably below the final contract rates, impelled producers to resort to heroic measures, as they had already done in the case of meat.

Wool was the only commodity in regard to which effective steps were taken to control liquidation of stocks and stabilize prices. It should be remembered, however, that the unexpectedly firm markets had much to do with the ultimate success of the policy that was pursued. As early as August, 1919, the Central Wool Committee had suggested to the wool-brokers that it was desirable to set up an organization to conserve the interests of the wool trade on de-control. The Australian Wool Council, representing growers and brokers, was formed accordingly. It submitted to a referendum of the interests concerned a proposal for the regulation of the trade, but only a minority of votes was recorded[1] and the plan was abandoned. The course of prices at the London wool auctions, which had been resumed in April, 1919, no doubt inclined growers to the belief that continued control in any form was neither necessary nor desirable. To obviate competition with British clips, the Imperial Government had decided to issue colonial wool to manufacturers from April to November, 1919, at prices averaging 85 per cent above the 1918 acquisition rates. A total quantity of 450,000 bales was issued in this way and, as auction prices were higher than anticipated and continued to soar, this transaction was condemned by certain public men and growers in Australia, who were merely wise after the event. Before the auction sales were resumed, the wool market had been in a very uncertain state and a decline in values was looked for. The feeling was evidenced by the cancellation of buying orders from the United States for 15,000 bales at "civilian issue prices,"

[1] 24,680, of which 74·88 per cent were in favour of the proposal. Over 120,000 individuals and firms were entitled to vote.

wool that was subsequently disposed of to the same country at an advance of over 100 per cent. It is not difficult, moreover, to account for the pessimism that prevailed. Stocks, both in the United Kingdom and in Australia, were heavy and the Continental exchanges were disorganized.

Under these circumstances, it was essential that the Australian Wool Council should continue its efforts to safeguard the future. It directed its attention first to the marketing of the 1920–21 clip, its London executive suggesting that a joint-stock company should be formed for that purpose. Australian interests were not favourable to this proposal, however, and a Special Executive Committee, consisting of the representatives of the Council and of the Central Wool Committee, was set up. As a result of its negotiations with the Director of Raw Materials in London, this body recommended the formation of the British-Australian Wool Realization Association Ltd. About the same time, the Australian Wool Growers' Council came into being, its constitution providing mainly for the supervision of marketing and for the restoration and maintenance of equilibrium. The British and Commonwealth Governments, having consulted each other, and Australian interests having agreed to the scheme, the B.A.W.R.A. was registered under the Victorian Companies Act on 27th January, 1921. Assets transferred to the company, through the British and Commonwealth Governments, included 1,836,005 bales of wool, half of which it took over, as owner, from the Australian Government, and the other half, as selling agent, from the British Government. Its capital was set down at £25,000,000, including half the value of the wool, which was estimated by adding the charges to the cost price and allowing 40 per cent off this total for depreciation. The B.A.W.R.A. thus became the owner of wool stocks valued at £13,957,105 and selling agent for a like amount. Only about £22,000,000 of the capital was actually issued.[1] This was divided into some 12 million £1 shares and

[1] Made up as follows—

	£
Cash in hands of Commonwealth Government	7,052,875
Wool Stocks	13,957,105
Assets of Central Wool Committee	990,020
	£22,000,000

£10,000,000 of priority wool certificates. Over 53,000 small growers, whose wool for the four seasons did not in any case exceed £100 in appraised value, were paid out in cash, and the priority wool certificates, which entitled the owners to cash in full before the shareholders received any dividends or any return of capital, were distributed among the remainder in proportion to the amount of wool supplied by each during the period of requisition. The number of these shareholders was nearly 70,000.[1]

The magnitude of the task which confronted the Wool Realization Association may be gauged by the stock position in the first half of 1921. The quantity actually taken over early in the year was as follows—

	Wool Owned by			
	B.A.W.R.A.		British Government	
Australian: Merino	452,090		452,090	
X-bred	465,912	918,002	465,913	918,003 bales
New Zealand: Merino			3,181	
X-bred			769,762	772,943 bales
Falkland Islands				2,329 bales
		918,002		1,693,275 bales
Grand Total		2,611,277 Bales		

On 31st July, 1921, 2,209,000 bales of this carry-over wool remained unsold, and 200,000 bales of Cape and other wools had been added to the stock. Of the 1920–21 Australasian clip, some 700,000 bales were estimated to be still unsold and a new season with a prospective yield of 2,400,000 bales had begun. Actual and visible supplies for the 1921–22 season, therefore, exceeded 5,000,000 bales.

In order to effect its purpose, it was necessary for the B.A.W.R.A. to come to some arrangement with the wool-selling brokers, who were auctioning the "free" clips, as to the quantity of offerings and as to the reserve per lb. A conference of wool interests on 17th March, 1921, agreed that the allocation of quantities of wool for submission at auction in England and Australia

[1] When, in 1926, the B.A.W.R.A. was in process of liquidating and had returned practically all its capital, 79 per cent of the shares were still held by the original allottees; 6 per cent of the shareholders were purchasers and held the remaining 21 per cent.

should be arranged by the British and Australian Boards of the B.A.W.R.A., with a proviso that the Australian offerings should not be less than the British. A tribunal was also set up to determine the minimum reserves to be placed on carry-over wools and on the current clip. Want of co-operation by certain interests made the voluntary fixing of limits ineffective and the Commonwealth Government, in response to an appeal by the directors of the B.A.W.R.A., made a regulation on 9th May, 1921, fixing a flat rate of 8d. per lb. of greasy wool as the minimum price until November.[1] Agreement with the brokers as to offerings was not always possible and the allocations of carry-over wools often had to be reduced, or sales suspended altogether.

The severe decline in wool values in March and April, 1921, was not surprising and continued during the 1921–22 season. The disposal of crossbred wools, especially the coarser sorts, occasioned much anxiety until 1923. The movement of prices reveals the temporary instability of the market—

AVERAGE PRICE PER LB. OF GREASY AUSTRALIAN WOOL[2]

Season	Pence	Season	Pence
1913–14	9·625	1920–21	14·08
1916–17 to 1919–20	15·5 + 3·44 (profit)	1921–22	11·88
		1922–23	17·468
	18·94	1923–24	23·226

Average 1920–21 *to* 1923–24: 16·293d.

[1] Commonwealth Statutory Rules, 1921, No. 97. The export of wool was prohibited unless the average reserve price had been paid or an undertaking given that it would not be disposed of abroad at less than the equivalent of the Australian minimum price. The chairman of the B.A.W.R.A. had recommended a minimum of 9d. per lb., after an analysis of cost of production. This price was stated to be below both current cost of production and pre-war value (Commonwealth Parliamentary Papers, 1920–21, No. 112). A recommendation for a similar system of control is contained in the Report of the Commonwealth Wool Inquiry Committee (Commonwealth Parliamentary Papers, 1932). The proposal, which was not adopted, was that a Commonwealth Wool Executive, representing the various interests, should be set up and that the Commonwealth Government should prohibit the export of wool whenever the Executive advised that the price was too low. Funds were to be made available to hold wool in an emergency.

[2] Report and Statement of the B.A.W.R.A. for the year ended 31st December, 1924. The profit to growers worked out finally at 3·69d. per lb. and to the British Government at 3·44d.

The B.A.W.R.A. wools were disposed of on the Continent as well as in England and in that country sales were attempted at centres other than London (e.g. Hull and Liverpool), where colonial wools were not normally on offer. The last bale of carry-over wool was shipped from Australia on 1st May, 1923, and the last bale was sold at Liverpool on 2nd May, 1924. On 30th July, 1921, about half of the priority wool certificates were retired and the remainder on 18th May, 1922. After the proposal to form a permanent organization had been rejected in December, 1922, the return of capital was proceeded with and 19s. per share had been repaid by 12th February, 1924.[1]

The experience of the years immediately following the war resulted in measures being devised for the regulation of wool offerings during the course of each season by agreement between the Australian Wool Growers' Council and the National Council of Wool Selling Brokers. It also confirmed growers in the habit of placing comparatively high limits upon wool offered at auction.

In New Zealand, only the new clip had to be provided for, as the B.A.W.R.A. had undertaken to dispose of carry-over wools. The position was slightly complicated by the fact that some growers had withheld wool from the final appraisement. However, a limitation was placed upon the export of wool clipped prior to 1st July, 1920, for which a shipping permit had to be obtained.[2] A New Zealand Wool Committee was appointed, composed of representatives of growers and brokers, with a government nominee.[3] Under the Wool Industry Regulations, the New Zealand Board of Trade, on the recommendation of the Wool Committee, was given power to fix minimum prices for the various grades. It was illegal to buy or sell at less than these prices, whether by auction or by private treaty. With the approval of the Minister, the Wool Committee was empowered to determine from time to time the maximum amount of wool to be offered

[1] The B.A.W.R.A. went into liquidation from 10th June, 1926, the liquidation being completed in December, 1932. The total profits distributed by the Central Wool Committee and B.A.W.R.A. exceeded £36,000,000. The interest on funds invested was £3,000,000. The total distribution in respect of wool transactions by the two bodies was in the neighbourhood of £200,000,000.

[2] *N.Z. Gazette*, 25/11/20.

[3] *Ibid.*, 23/6/21.

for sale at auction. No person was to sell wool, by auction or otherwise, without a permit from the Committee and export was prohibited unless an undertaking was given that wool would not be sold abroad at less than the equivalent of the minimum price fixed in New Zealand. This somewhat strict regulation of the trade was felt to be justified in view of the difficulty of disposing of crossbred wools at profitable prices.[1] The Wool Committee was in constant touch with the B.A.W.R.A. throughout the period of liquidation and shaped its policy in conformity with the interests of that organization. The Committee continues to function, its main work being now confined to the regulation of offerings.

6. Effects of the War on Trade and Production

It might be thought that rising prices and government buying would have induced a marked increase during the war in the agricultural output of Australasia. Yet it is not difficult to account for the fact that production received no considerable stimulus. For one thing, raw materials and foodstuffs tended to be undervalued in the world market as compared with manufactured goods, since the consumption of the former and the production of the latter had both been diminished by the cutting-off of enemy countries and the diversion of industrial plant to war purposes. Rising cost and scarcity of farm requisites, shortage of labour, congestion at cold stores and accumulation generally all served as a warning to producers. Apart from the tendency for profit margins to be diminished by higher costs, the feeling that hostilities might be of short duration helped to damp off any zeal for increased enterprise. This is one of the reasons why any considerable rise in output was delayed until the war was over, prices soared, and the prospects for a time were incredibly favourable.

To some extent climatic factors account for the failure of production to expand, but these were not the major influence. It is true that sheep numbers in the Commonwealth declined from 85

[1] E.g. at the 1921–22 sales, October prices averaged 4¼d. to 4½d. per lb. and the highest price recorded during the season was 9·01d. per lb. Prices fixed by regulation were: 56's quality and under, a minimum average of 5d.; over 56's, 9d. per lb. (*N.Z. Gazette*, 24/6/21). It was found unnecessary to continue price-fixing after that season.

millions in 1913 to 69 millions in 1915, on account of drought, and that the fall in the output of mutton till 1917 was owing to the fact that flocks were being built up again during years when seasons and wool prices were favourable. Yet it was not until 1919 that production returned to the pre-war level. In New Zealand, where severe and widespread drought is unknown, the output of mutton and lamb similarly failed to expand. Beef production in Australia, which had been increasing uninterruptedly from 1909 to 1914, fell away, and, though the cattle numbers were restored by 1917, did not again reach the pre-war level till after 1923. The relatively less important beef industry in New Zealand expanded until 1917 and then declined.

In view of what has been said about mutton production, it is natural to expect some increase in the output of wool, as sheep numbers rose. But statistics of wool production are of doubtful accuracy. Under the system of appraisement, however, the Commonwealth clip probably increased as much as 10 per cent, but there is no evidence of a similar rise in New Zealand. What is of greater moment is that, in Australia, a marked change took place in the relative proportions of fine and crossbred wools produced. In 1911, merino wool had constituted 85 per cent of the clip; by 1917, it was only about 75 per cent, and in 1920 66 per cent. As a similar change was taking place in other important wool-producing areas, with the exception of South Africa, the high level of fine wool prices in the post-war years is largely accounted for.

The dairying industry throughout Australasia failed to maintain its output from 1914 to 1918 at the previous level. Cheese production did exhibit a considerable increase, especially in New Zealand, but the trend before the war had been steadily upwards owing to the growing share of the British market which producers were securing, and the wartime increase was partly at the expense of the output of butter.

The decline in wheat acreage and crops in Australia has already been noticed. The falling-off in world cereal production in the early war years was not reflected in increased profits to wheat-growers in the Commonwealth owing to the difficulties attending export. The accumulations of grain, however, stimulated the

milling industry. The fine quality of the flour attracted the attention of traders abroad, and after the war the discrepancy between the value of sterling in the United States and in Australia assisted in maintaining the trade at the expense of the U.S.A.[1]

There is evidence of momentary stimulus to the production of one or another commodity, as a thrill ran through markets when government buying of this or that article began, but the general impression remains that, although prices were satisfactory, producers had neither the desire nor the means to expand output.

Accumulation of stocks had led to the over-equipment of two industries—meat in New Zealand and wool in Australia. Despite official warnings that increased cold-storage space alone was needed, additional freezing-works were built in New Zealand, beyond the capacity of the industry in normal times; and the liquidation of superfluous plants since 1920 has added to the burden of falling prices. Cold-storage space reached a total of over 200,000 tons in 1919, equal to the total export of meat in that year, which was a record. In Australia, the local appraisement of all wool, as well as accumulation, made it necessary to increase the capacity of the wool stores. After the war, the existence of this additional accommodation helped the local selling brokers to maintain and increase the proportion of wool sold in Australia.

The re-orientation of world trade after 1914 had extensive reactions in Australasia. An analysis of the volume of exports directed to the United Kingdom reveals some increase in the case of Australia and the maintenance of the pre-war percentage from New Zealand. British entrepôt trade in Australasian products declined simultaneously. Increased shipments were made from Australia to India and Egypt on Imperial Government account and from both Dominions to the U.S.A. in 1915–16 and in 1917–18. Some neutral markets were entirely cut off. Japanese wool users were compelled to turn to South Africa for the fine, shafty wools suited to their industry[2] and New Zealand's trade with South America came to an end. The South African market, which had absorbed considerable quantities of foodstuffs, was lost and

[1] E.G. Nourse—*American Agriculture and the European Market*, p. 172.
[2] See N.S.W. Dept. of Agriculture, Annual Report, 1917–18, 1918–19.

certain export trades (e.g. fresh fruits and honey) were at times totally interrupted. The development of minor markets ceased either to be possible or to engage the attention of producers.

The trade in certain commodities exhibits the degree of dislocation which had taken place in some directions. Prior to 1914, the Australian beef industry was securing a growing share of the British market, but, like that of New Zealand, failed to maintain its position during and after the war. New Zealand and Australia together supplied the greater part of the British imports of mutton from 1900, but the quantity and the proportion from these Dominions both declined from 1915. Great Britain had been compelled for the time to seek supplies from nearer sources. Dairy produce was harder to come by, and after 1916 a considerable diversion of the source of supply to the southern hemisphere took place. The change was most marked in the case of butter. Imports into the United Kingdom from Australasia had risen steadily since the beginning of the century, but in the average pre-war year did not amount to one-quarter of the total. As supplies from other sources fell off, the contribution from the southern hemisphere was maintained,[1] and in 1918 and 1919, the British market received over 70 per cent of its imports from that area. This geographical shift from north to south in the weight of export had already taken place in the meat trade between 1907 and 1914, but its significance was far greater with respect to dairy produce, since the production of that commodity is more subject to seasonal influences. The result was to make the summer months the period of relative scarcity of supplies in the United Kingdom and to destroy the advantage of opposing seasons formerly enjoyed by the southern Dominions.[2]

7. Proposals for Increasing and Stabilizing Producers' Returns

It is probable that even without the intervention of war some sort of crisis would have developed in the Australian and New

[1] Except in 1915–16, when it fell to two-thirds of the 1913–14 figure.

[2] In recent years the period of relative scarcity of butter supplies in the U.K. has been the autumn months (September-November), when the southern Dominions have little to offer. February has also been a month of relative shortage. See Chapter IV, Section 4.

Zealand export trades. The relatively favourable position of agricultural producers could not be expected to continue indefinitely, as the extension of settlement and the more intensive exploitation of land proceeded. It is questionable, however, whether the change would have come with such devastating rapidity. The great and sudden decline of prices after 1920 was beyond anything that the most conservative producer could have imagined. The shrinkage in returns from every commodity and the failure to realize that patience might achieve more than heroic measures led to a host of proposals whereby farm income might be restored. Some of the steps taken proved abortive, others were merely developments of pre-war tendencies towards improved distribution; some were designed to tide over a period of temporary embarrassment, others resulted in full-fledged systems of marketing control which still persist. An extension of various forms of group organization would, it was thought, prove to be the farmer's economic salvation. The relatively strong bargaining position of producers before and during the war had developed in them a sellers' market psychology and a belief that effective organization was all that was needed in order to ensure satisfactory prices. Unfortunately, except for wool, the market has been a buyers' market ever since. Of the three possible ways of solving the agricultural problem, viz. (i) forcing up prices, (ii) adjusting production, and (iii) reducing costs and eliminating waste, only the first and last have been resorted to and, except in internal markets in Australia, little success has been achieved in holding up prices. The reasons why production was maintained were in part political. Schemes of settlement for ex-soldiers and immigrants had been initiated at heavy capital cost, both for land and for development works. Governments could not readily abandon such enterprises and were encouraged, moreover, to render financial and other assistance by the belief that the lower price level was but a passing phase. Similarly, improved agricultural technique was being generally applied in order that increased output might be set against lower returns per unit. Standards of quality imposed by government became more exacting and remarkable improvements in packing and grading took place. These developments were, however, not immediate

and were largely due to the failure of prices to regain their high level. At first, what is termed "straight marketing work" did not form part of the proposals for solving the agricultural problem. The new movement aimed rather at increasing prices through some form of monopolistic control and sought minor compensations from tariff adjustments, state financial aid, and the reduction of transport and labour costs. The fact that ample fluctuations yielded temporary, and at times considerable, gains to market operators and that, under the disturbed conditions, prices in primary and in final markets often did not tally was sufficient to assure producers that consumers could pay more and traders be satisfied with less. At this distance it seems incredible that greater patience was not exercised and that calm reflection did not disclose the fact that high marketing costs, such as freight rates, would inevitably be adjusted in their turn. Yet it must be remembered that producers were panic-stricken and that many of them had become committed to such highly inflated capital costs as to leave them no reserves with which to weather the storm.

The character of the dislocation which ensued upon de-control has already been described, together with some of the measures adopted in an endeavour to restore equilibrium. Of the proposals now to be considered, the most ambitious was put forward by the B.A.W.R.A., which found itself in possession of surplus assets estimated to exceed £6,000,000. An extraordinary general meeting of shareholders, one of the largest company meetings ever held in Australia, was convened at the end of 1922 to consider the following resolutions—

> That it is desirable to have a central organization for the protection, stabilization, and development of Australian Pastoral and Agricultural Industries, including the formulation of policies respecting the disposal of primary products, or of such of them as may be decided upon by the meeting, and that the B.A.W.R.A. be such central organization and that the directors thereof be and they are hereby authorized to take such steps as they consider necessary to carry this resolution into effect.[1]

The complete control of the marketing of primary products, including the arrangement of transport at home and abroad, finance, and insurance, was to be undertaken by the directorate

[1] Circular Letter and Supplement: Proposals for the Protection, etc., of Australian . . . Industries. Melbourne: 31/10/22.

of the B.A.W.R.A. assisted by committees in each State. Considerable benefits, it was claimed, would accrue. Shareholders would secure a valuable and permanent investment for the Association's surplus funds. The fixing of reserve prices and the regulation of quantities marketed would assist in stabilizing the values of products and properties. New markets and storage depots could be established abroad where thought advisable. Financial accommodation could be provided and comprehensive shipping contracts entered into. Improvements in the grading, re-conditioning, and handling of commodities would be the special concern of the permanent organization proposed and, by the equalization of returns per unit for all, greater stability would be assured than when producers were competing with each other for markets.

The proposals were widely discussed during the last three months of 1922.[1] Attention was specially directed to the depressed condition of the meat industry, which, it was thought, could be revived by the efforts of the new organization.[2] At the meeting Sir John Higgins elaborated the advantages which, in his view, would accrue to the wool industry. He asserted that wool values could be stabilized and that the price of fine wools (56 counts and upwards) could be raised forthwith. By concerted action, the draftage allowance on wool[3] could be abolished and small clips re-classified and reconditioned, so as to give the maximum return. The disparity which often existed between prices obtained for wool of the same type at different selling centres could be eliminated by grading for type and yield, as had been done by the Central Wool Committee. The type would be indicated in the brokers' catalogues. Economies in handling charges, freights, and dumping were also considered to be possible, and the Association could finance an extension of the wool-selling season by from three to six months. The total gain was put as high as £2,650,000 per annum.

[1] See, e.g. *Argus* (Melbourne), 16/10/22.
[2] *Ibid.*, 19/10/22; *Age* (Melbourne), 16 and 24/10/22.
[3] Buyers, by a custom of the trade said to have survived from the time when weighing appliances were not accurate, are allowed one pound additional on every cwt. The Commonwealth Wool Inquiry Committee, 1932, recommended its abolition, and the growers appear now to be determined to secure this, either by agreement or by law.

The resolution was summarily rejected without discussion and the Graziers' Councils in the various States were almost unanimously opposed to it. The decision of the Association is intelligible; that of the wool-growers' organizations hard to account for. An opportunity was offered producers to eliminate by rational measures, administered by men of proved competence, many of the elements which contributed to instability and to the increase of marketing costs. However, farmers are conservative, they have to face risks in production whatever the marketing channels, and they are often chary of taking concerted action with the devil they know (to wit their fellow producers) for the advantage of their industry as a whole. The hostility of the wool-selling brokers, who were large shareholders in the B.A.W.R.A. may be accounted for on other grounds than that of self-interest alone. It is true that they are interested in certain sidelines which the proposed organization would have arrogated to itself and that they may have feared an even more direct threat to their activities. Yet they could argue with some show of reason that the reforms suggested would not necessarily increase the average return to the grower. The abolition of draftage, for example, would merely result in an adjustment of bids.[1] It was claimed further that the typing of wool and its suitability for various purposes could not be determined with mathematical accuracy and that, in any case, the services of the experts who had graded and classified for the Central Wool Committee would not be available to the new organization, since they would normally be engaged in buying operations.

Another abortive proposal related to the Australian meat industry. Early in 1922, it appeared likely that, owing to the chaotic condition of the beef trade, the meatworks would be unable to open. A conference called by the Commonwealth Government resulted in the setting up of the Australian Meat Council, upon which producers, exporters, and the various governments were represented. The Council was given legal recognition by the Meat Industry Encouragement Act, 1924. It

[1] Yet the amount is so small that it would be difficult to allow for it by making lower bids. These advance by ¼d. per lb. to 15d. and thereafter by ½d. At the high price of 30d. per lb., draftage amounts to little more than ¼d.

was anticipated that the several States would enact complementary legislation, so that the Council might be furnished with funds by means of a levy on stock. Only three States (Queensland, New South Wales, and Tasmania) took the necessary steps, and though the Council continued in being for several years, it was unable to effect very much. Its functions were mainly advisory and related to means of improving production and to grading and marketing methods.[1] At its annual meeting in 1925, the draft of a Meat Export Control Bill was considered and the principle of control was approved. However, three States were not represented, in Tasmania no levies were collected, and the Council was dissolved in 1926. A somewhat similar body, the Australian Dairy Council, was set up in September, 1922, to advise the Commonwealth Government upon the administration of the Acts and regulations pertaining to the production, manufacture, and standardization of dairy produce. The Dairy Council aimed also at securing uniform legislation and administration in all the States. It still exists and has concerned itself in recent years with problems of pasture management.

Of the temporary expedients that were resorted to in the early post-war years, the Commonwealth wheat pool has already been noticed. Fruit pools and a hop pool were likewise organized, and proved under the circumstances both expensive and embarrassing. In 1920, the fruit canners asserted that, owing to increased costs of processing and the decline in consumption following high prices, they would be unable to purchase fruit from growers. During three seasons, therefore, the Commonwealth Government arranged for the purchase, processing, and marketing of fruit for canning and pulping. In the first year, Victoria and Queensland were the only States that participated, and the loss borne by the government did not exceed £92,000. In the following year, all the States except Western Australia were concerned, with a resulting deficiency of £363,000 on the 14,612 tons handled. In 1922–23, 16,382 tons of fresh fruit were purchased from growers in New South Wales, Victoria, South Australia, and Tasmania, at a net loss of £231,000. Much difficulty was experienced in disposing of

[1] See N.S.W. Parliamentary Papers, 1924, Vol. IV, p. 709. Committee on Meat Industry Encouragement Bill, Report and Minutes of Evidence.

the export surplus, especially in the United Kingdom, partly because markets were oversupplied, but mainly owing to inferior quality. In its report on the canned fruits industry,[1] the Australian Development and Migration Commission naïvely remarks that after the 1922–23 season the Commonwealth Government found the position of the industry unsatisfactory under the pooling arrangement. A system of bounties was therefore adopted. A Tasmanian hop pool, which was guaranteed advances of about £25,000 under the Hop Pool Agreement Act, 1924, involved the government in another loss of £11,000. In the same State, a similar guarantee, given to a producers' co-operative engaged in the marketing of fresh fruit, resulted in a deficit of about £20,000. A piquant situation developed when a formal demand for payment of this sum was made to the co-operative. It represented to government that other fruit producers had received assistance, that in any case the fruit was sold and the security therefore dissipated, and begged that the regrettable loss might be written off, a course which the cabinet had no option but to take.[2]

The export control system was initiated by the meat producers of New Zealand who, at the beginning of 1922, endorsed a proposal to form a compulsory pool of the whole of the export meat. The movement was taken up in Australia, where internal marketing control was already beginning to be developed. The philosophy of export control was merely an extension of that ascribed to co-operative enterprise in general. It contemplated operations upon a scale hitherto untried and was regarded in some quarters as the necessary outcome of co-operative efforts by small and competing units. It was believed that a system of control which checked speculation, which eliminated weak holders and rivalry among sellers, and which brought middlemen's dealings more into the light of day would destroy the standing aphorism which mocked the farmer by asserting that any one could make money out of agricultural produce after it had left the farm. For producers were, and are still, largely convinced that, when

[1] Commonwealth Parliamentary Papers, 1929, Vol. II, p. 1595.

[2] Commonwealth Parliamentary Papers, 1926–28, Vol. III, Report of Auditor-General, 1925–26.

prices fall, some "hidden hand" is working against their interests.[1]

The relative dearness of manufactures as compared with food-stuffs and raw materials, a feature of the war years, continued and was accentuated after 1921.[2] Whatever mysteries may be concealed by the phrase "terms of trade," it is clear that part of the burden on producers was due to the refusal of the factors of production in the food-consuming and manufacturing countries to accept lower standards of remuneration and so assist in the adjustment of agricultural producers' costs. Under the circumstances, some counter move by the latter was only natural, though likely to prove futile.[3] Australian producers, having forgone a portion of their profits during the war years, looked for some compensation from the local market when prices were unduly low. Ideas of distributive justice are readily developed among those concerned in any department of economic activity which, at a given moment, is relatively depressed. However valid the conception and however adequate in the long run the remedies proposed, the facts and circumstances must be taken into account before any judgment can be formulated. For this reason, as well as for its interest as a chapter in economic history, it has been thought essential to outline by way of preliminary the historical background of the marketing situation as it has developed since 1914.

[1] E.g. at a meeting of New Zealand dairy-farmers a resolution was carried to the effect that "some unfair power must be operating against the interests of the primary producers." (*N.Z.Dairyman*, January, 1931.)

[2] Report of Royal Commission on Food Prices, Cmd. 2930/1925, p. 14.

[3] Futile, because over long periods agriculture has tended to be relatively depressed as compared with manufacture, since the point at which demand for agricultural products becomes inelastic is ultimately reached in the case of one commodity after another. In recent years, semi-luxuries like lamb and butter appear to have been offered in such quantities that even a withering fall in price has not always ensured the clearance of stocks. It is, of course, true that this excess of supply in some markets has been accentuated by the denial of access to others; but should restrictions be removed, it seems that increased production would soon reproduce the condition of glut. The very steps taken to prop up agriculture in the producing countries cannot but tend in this direction and thus prevent the restoration of equilibrium.

CHAPTER II

LEGAL ASPECTS OF MARKETING ORGANIZATION

1. Producers' Right of Combination

Introductory. It may seem at first sight that legal questions lie outside the purview of the economic investigator, and that judicial decisions and the provisions of statutes do not require to be "economically" noticed. It is true that, as regards the major portion of the industrial field, economic analysis may assume the ordinary framework provided by statute and common law. Such a proceeding is not possible, however, for that body of practical commentary which has come to be known as descriptive economics. This submission is reinforced by the growing importance of statutory provisions and judicial decisions with respect to agricultural marketing in Australasia as elsewhere. An effort has been made to facilitate by statute special forms of organization for large-scale agricultural marketing at home and abroad under the control of producers. It is argued that, just as the Companies Acts furnish a basis for the organization of industry and labour laws for that of wage-earners, so some distinctive legislative provision is required for agriculture.[1] Till recently, company laws, with some slight concessions in favour of producers'co-operatives,[2] and legislation of the type of the Industrial and Provident Societies Acts of Great Britain have been regarded as adequate to the needs of farmers' marketing organizations in Australasia. In practice, difficulties have arisen with respect to contracts

[1] See Report of Director of Marketing for Queensland, 1927–28. *Cf.* E. G. Nourse—*Legal Status of Agricultural Co-operation*, p. 406: "The view that co-operative laws should be special legislation for agriculture appears to have been accepted by Congress in passing the Capper-Volstead Act and has been rather explicitly set forth by numerous State legislatures in the preamble to recent co-operative marketing Acts."

[2] E.g. a dairy company in N. Zealand may be registered under the Dairy Industry Act, 1908, and thus have power to require or accept the surrender of shares. This provision enables the membership to be restricted to actual suppliers, shares being surrendered and re-allotted when land is sold. The N.Z. Co-operative Pig Marketing Companies Act, 1933, contains similar provision.

between co-operatives and their individual members. As a result, enactments have appeared which override the common law, while others provide for the grouping of local co-operative units in district, State-wide, or national organizations.

Voluntary Combination. The right of producers to combine in the marketing of their output has not been challenged in Australasia, as it was until lately in the United States. At the same time, it must be remembered that, until quite recently, organization among producers and traders in Australasia was not so extensive as to involve any degree of monopoly.[1] Under pre-war and war conditions, with producers mainly dependent upon external markets and with price movements generally in their favour, it is not difficult to understand why organization had not followed the direction taken in the United States. Monopolistic tendencies in agricultural marketing in Australia, and to a minor degree in New Zealand, are so recent and have emerged under conditions so abnormal that the question of their legal status is not likely to be raised in the courts. For some time to come, it seems more probable that such of these quasi-monopolies as have not yet been brought within the ambit of the statute law will, if necessary, be confirmed.

Compulsory Co-operation. The right of voluntary combination is generally not regarded as adequate to secure the objects which producers have in view. Though voluntary arrangements such as that effected in the Australian butter industry may be come to,

[1] The Australian Royal Commission on the Meat Export Trade (1914) found that combinations did not exist among stock buyers and meat exporters. The case of Australian dried vine fruits is an important exception. With the assistance of the tariff, the Australian Dried Fruits Association was able to organize on monopolistic lines and to regulate prices and distribution. Though its activities were never challenged in the courts, substantial objection was raised against them. (See Report of Royal Commission in Victoria on Fruit, Vegetables, and Jam, 1915.) The nine authorized selling agents of the Association were permitted to deal only with such retailers of dried fruits as would make a statutory declaration to the effect that they had not been directly or indirectly interested in the purchase of dried fruits outside the Association, nor been parties to any breach or evasion of the Association's regulations. One of the rules of the Association provided for the apportioning of fruit between local and export markets. The Commission objected to the exercise of these powers without any control by a public authority. The Association has since claimed to have submitted its regulations to the Commonwealth Attorney-General, who advised that they did not conflict with the Australian Industries Preservation Acts.

they are always threatened by breach of agreement. "Compulsory co-operation," as it is called, is already practised in certain States, notably in Queensland. It is difficult to find an analogue to this method of organization, either in the political or in the industrial sphere. The means whereby it is effected may, however, throw light upon its exact nature. Under the Queensland Primary Producers' Organization and Marketing Acts, a prescribed number of producers of a commodity may petition the Governor-in-Council to apply the Act to such commodity. A subsequent petition may in like manner be made requesting that a poll be taken on the question of setting up a Board to control the marketing of the commodity. The franchise is extended not only to the grower, but also to such of his sons as are over 18 years of age and working for keep and not for wages.[1] A 60 per cent majority of those voting and a total poll of not less than 50 per cent of all those entitled to vote is required before a proposal to constitute a marketing board can be carried. It is then that "compulsory co-operation" begins, for the board has power to compel all growers to market their commodity through it and even to expropriate the produce.[2] It should also be noted that, as with the Parliamentary franchise, there is no property qualification. Some regard, it might reasonably be expected, should be had to the amount of each producer's output in determining whether or not it shall be subject to control. The system appears, therefore, to require not too great a disparity of economic status as between individual producers and is, in fact, applied in the main to those sections of rural industry in which the range of size in the producing units is not great. It should be remembered, too, that so long as considerable gains are assured by this type of combination, the want of relation between voting power and farm output need not be a great disadvantage; and, in any case, true co-operation aims at "a union of men, not a union of capitals."

Anti-trust Laws and Monopoly. The aim of producers' combinations since the war has been to maintain prices. It is significant of the circumstances in which the new methods were ushered

[1] In New South Wales, the age is now 21 years.

[2] But a Marketing Board may not interfere with sales beyond the State. See Chapter II, Section 3.

in that no adequate provision is made in any of the statutes for the safeguarding of the consumer.[1] This is all the more remarkable, since the existing anti-trust legislation, both in Australia and in New Zealand, is not aimed at farmers' combinations.[2] In any case the law has become practically a dead letter.[3] It appears to have been aimed at any large-scale industrial or commercial undertaking which might exploit consumers and, in Australia, was limited in its application, as most combinations were confined to a single State and the Commonwealth had therefore no power to deal with them.[4] The leading cases illustrate these points and show besides that it was impossible to get the courts to accept the view that any particular combination was responsible for a restraint of trade that was actually detrimental to the public interest. In 1912, the Commonwealth unsuccessfully attacked an agreement between competing coal-owners in the Maitland and Newcastle districts of New South Wales. Though it was clear that increased prices had resulted, this fact was held to be not of itself against the public interest.[5] It was shown at the trial that cut-throat competition had lowered the standard of living of the mining communities, a circumstance which might be urged to-day on behalf of producers' organizations. A New Zealand case[6] concerns a combination of millers which was alleged to be aiming at a monopoly of the supply and distribution of flour. The prosecution failed on appeal to establish the fact that a substantial monopoly existed.

[1] The N.S.W. Marketing of Primary Products Act, 1927, provides that one consumers' representative shall be appointed to each Marketing Board set up; but this is no safeguard on a board consisting of "at least five members."

[2] In Australia, the Industries Preservation Act, 1906–30, based upon the United States' Sherman Act, 1890. In New Zealand, the Commercial Trusts Act, 1910, amended by the Cost of Living Act, 1915, so as to include "any article of food for human consumption and ingredients used in the manufacture of any such article."

[3] For a discussion of the aims and working of the Australian Act see: Sir C. G. Wade—"Australian Anti-trust Legislation" (*Journal of Comparative Legislation*, 1919, Third Series, Vol. I, p. 196); D. B. Copland and J. G. Morris—"Some Reciprocal Effects of our Anti-trust Laws" (*Annals of the American Academy of Political and Social Science*, January, 1930); H. L. Wilkinson—*The Trust Movement in Australia* (Melbourne, 1914).

[4] *Huddart Parker* v. *Moorhead*, [1908] 8 C.L.R. 330.

[5] *Adelaide Steamship Co.* v. *The King and Attorney-General of the Commonwealth*, [1912] 15 C.L.R. 65; *Attorney-General of the Commonwealth* v. *Adelaide Steamship Co.*, [1913] A.C. 781.

[6] *The King* v. *Crown Milling Co. Ltd. and Others*, [1925] N.Z.L.R. 753.

Recent Tendencies. The most recent development, viz. the organization of producers for the purpose of controlling home and export prices, has, in part at least, been legislated for by the Commonwealth and by some of the States. The Federal Government has even been constrained to amend the Industries Preservation Act in order to promote concerted action between shippers and shipowners with a view to effecting savings in freight.[1] The general tendency has been to remove any local obstacle which stood in the way of the export trades, just as the Webb-Pomerene Act of 1918 in the United States permitted combinations among firms for purposes of export. To some extent this development has been due to political expediency and perhaps to an equal extent to the desire to maintain equilibrium between the various branches of economic activity. Whether it will continue under a regime of rising prices or of increasing net returns due to a reduction of costs remains to be seen. It is clear, however, that under such circumstances producers' combinations, as at present existing, could be definitely oppressive and that now that they have learned how to organize for this purpose, they may very well place upon the shoulders of the community a burden similar to that which high protection of manufactures has already placed upon their own. It is significant, perhaps, that, with the aid of the tariff, producers of sugar, dried vine fruits, and butter have striven to make the public subsidize their surplus production and to exact the last penny of advantage which protection affords them. They have not been concerned directly, if at all, to increase distributive efficiency nor to improve their services to consumers. It is true that the tariff could be turned, if need be, against the producers, yet it seems unlikely that any government would dare to take this course.

The crisis policy of governments has done much to sweep away many principles of the common law and to advance the monopolistic tendencies of some of the post-war legislation. Apart from the employment of the moratorium device in mortgage relief enactments to an extent that is definitely confiscatory,

[1] The Australian Industries Preservation Act, 1930, exempts agreements for the sea-carriage of goods made between shippers and shipowners from the operation of the principal Act.

there appears to be a growing inclination to restrict competition and to attempt to confer some degree of security by monopolistic control. Thus in New Zealand the Slaughtering and Inspection Amendment Act, 1934, gives the Minister of Agriculture, acting on the recommendation of the Meat Producers' Board, power to fix the maximum number of stock that may be slaughtered in a given meatworks during a specified period. The Minister may also determine whether a works shall be extended or whether a licence shall be issued for a new works. The provision as to the quota of stock to be slaughtered has actually been applied. An attempt by government to prohibit the erection of a new dairy factory (and also of a cinema) was frustrated by the courts and no statutory power has yet been taken to overcome this check. The New Zealand Agriculture (Emergency Powers) Act, 1934, however, is wide enough to enable the Dairy Board to regulate the number of dairy factories and competition between them, but it appears that the powers would be exercised only with the consent of the companies concerned. It seems unlikely that the policy of collectivist control of economic activities will be reversed, though it has been tolerated largely because it was declared to be temporary.

2. The Law and Producers' Co-operatives in Australasia

Contractual Relations Between Co-operatives and their Members. We have seen that certain combinations in restraint of trade in the form of voluntary, and even compulsory, associations have recently been accepted as desirable and given a measure of legal recognition. In certain areas and in certain directions, however, producers' organizations are still liable to find that their activities conflict with the principles of the common and company law. The relationship between a farmers' co-operative company (whose work includes the receiving, processing, manufacture, packing, and marketing of members' produce) and its members is in practice, if not in law, quite different in character from that subsisting between an ordinary mercantile company and its shareholders. In the first case, the relationship is active; in the second, it is usually passive, except upon what may be called critical occasions. It is this distinctive characteristic of producers'

companies which has given rise to legal difficulties. Thus, the contractual relations between co-operatives and their members have formed the subject of numerous judicial decisions since the war. The contracts have been attacked on several grounds, viz. (i) that a company by its articles cannot impose contractual obligations upon its members; (ii) that provision for the automatic increase of shareholding with increase in the amount of business done with the co-operative offends against the principle of limited liability; (iii) that the contracts, howsoever effected, are unenforceable as being in unreasonable restraint of trade; and (iv) that sums sought to be recovered from members for failure to deal exclusively with the co-operative or company are penalties, not liquidated damages, and therefore not recoverable.

Restraint of Trade. Whether a contract is or is not in illegal restraint of trade depends upon whether it is fair and reasonable in its terms. Agreements have been held to be unenforceable on the following grounds: (i) that they were to continue in force during the whole life of the individual member; (ii) that they covered the produce of all lands farmed or to be farmed, whether owned, leased, rented, or otherwise held; (iii) that they bound the individual to supply his whole product wherever the co-operative might be situated; and (iv) that the supply of the whole product was not reasonably necessary for the protection of the co-operative company.

The leading English cases furnish some clue to the attitude of the Dominion courts towards the relations between co-operatives and their members. In *McEllistrim* v. *Ballymacelligott Co-operative Agricultural and Dairy Society, Ltd.*,[1] the rules of the society requiring members to sell all their milk, the produce of cows kept by them within a defined area, to the creamery belonging to the society were held by the House of Lords, when read in combination with other rules, having the effect (as interpreted) of binding the members without limit of time, to be *ultra vires* of the society and not binding upon the members as being in unreasonable restraint of trade. The want of limitation as to time rendered the contract between the society and its members bad in law. This case has been frequently applied in the Australasian courts.

[1] [1919] A.C. 548.

Exclusive Dealing Provision in Articles of Association. In *Heron* v. *Port Huon Fruit Growers' Co-operative Association Ltd.*,[1] one of the articles of association of the co-operative provided for exclusive dealing with it by members. The area from which the fruit was deliverable was not defined, nor was the term for which the contract was to run. The court held that the restraint imposed by the articles upon members in respect of the disposal of their fruit was not reasonably necessary for the protection of the company and that, even if the provisions of the articles which imposed the restraint operated as an actionable contract between the company and its members (as to which *quaere*), they were an unlawful restraint of trade and unenforceable. A similar application of the English case was made in *Victorian Onion and Potato Growers' Association Ltd.* v. *Finnigan.*[2] Though the period of exclusive dealing was limited, the contract called for delivery of all onions or potatoes grown on any land in the State of Victoria in which the member had any interest whatever. *Shalfoon* v. *Cheddar Valley Co-operative Dairy Co.*[3] was a case in which the respondent company had secured judgment in a lower court against a member who had failed to deal exclusively with it until his share capital was fully paid up, as required by the company's articles of association. The appeal was sustained, one of the grounds being that the company had purported to bind members to supply it wherever its factory might be situated. In the course of his judgment, Herdman, J., said that if the company had not provided in its articles that it could establish factories anywhere in New Zealand, he would have been inclined to hold that the clause in dispute, if for other reasons in restraint of trade, did not create a restriction which exceeded what was reasonably necessary for the protection of the covenantee. This readiness to take what might be termed a liberal view of what was reasonably necessary to protect the company's interests finds an echo in a recent English case, *English Hop Growers Ltd.* v. *Dering.*[4] The defendant was a member of

[1] [1922] 30 C.L.R. 315. [2] [1922] V.L.R. 384. [3] [1924] N.Z.L.R. 561.
[4] [1928] 2 K.B. 174. *Cf.* the observations in *Johnson* v. *Eltham Co-operative Dairy Co.*, [1931] N.Z.L.R. 216, in which it was stated that if the terms of a contract of exclusive dealing are reasonable, the contract need not be void.

the plaintiff society which was registered under the Industrial and Provident Societies Act, 1893, and formed "to organize the marketing of home-grown hops . . . by their sale through a single agency," viz. the Society. By a written agreement he promised to deliver to the society all hops grown or produced by him during a period commencing in 1925, on certain land consisting of 63 acres. The defendant broke this agreement so far as his crop for 1926 was concerned and the court of appeal were unanimous in holding that the agreement was enforceable and was not unreasonable as being in restraint of trade. One judge observed that there was "nothing unreasonable in hop growers combining to secure a steady and profitable price by eliminating competition amongst themselves and putting the marketing in the hands of one agent with full power to fix prices and hold up supplies, the benefit and loss being divided among the members." Scrutton, L.J., said that the case was one in which the court would view the restraint of trade as being imposed between equal contracting parties for the purpose of avoiding undue competition and carrying on the trade without excessive fluctuations and uncertainties and therefore with more favour than in the case of a contract between master and servant in unequal positions of bargaining. The features that distinguish this case from previous ones are that (i) the term of the agreement was limited; (ii) the land of which the produce was deliverable was clearly defined; and (iii) the agreement was not effected through articles of association.

The question of the legality of binding members to exclusive dealing through articles of association has been fully considered by the courts. *Biddulph and District Agricultural Society Ltd.* v. *The Agricultural Wholesale Society Ltd.*[1] is an authority to show that contracts with members may be embodied in the articles. In *Shalfoon's Case,* Salmond, J., expressed the opinion that an incorporated company is entitled to make with one of its own shareholders any contract which it could lawfully make with an outsider.[2] It seems clear, then, that there is no reason why a contract between a co-operative and its members should not be

[1] [1927] A.C. 76. The appellant Society was registered under the Industrial and Provident Societies Acts, not under the Companies Acts.

[2] This point is said not to have been finally decided in England. (Palmer's *Company Law,* 14th Edn., pp. 37–38.)

embodied in its articles of association. But if a company wishes to rely upon a clause in the articles as a contract with its members, it must prove *aliunde* in the individual instance that such a contract was made. Such a clause would bind a member who could be proved to have agreed to it, and the contract having been established, the articles may be referred to as evidence of its terms.[1] In regard to the whole question, the observations of Salmond, J., in *Shalfoon's Case* at p. 584 are of interest: "The fact that in the present case and also in *Macdonald* v. *Normanby Dairy Co.*[2] this court and the Supreme Court have found it necessary to hold invalid certain provisions inserted in the articles of co-operative dairy companies for the purpose of securing the effective conduct of their co-operative business may be thought to indicate that the provisions of the Companies Act are not adapted for companies carrying on this class of business. I do not think, however, that there is any basis for such an inference. The legal difficulties in which such companies have found themselves involved are not due to any defect in the Companies Act, but to their own fault in attempting to make their articles of association do the work of express contracts entered into between the companies and the individual shareholders on the allotment or transfer of shares. With competent and careful legal advice and assistance in respect of their constitution and management, dairy companies should find no difficulty in carrying out their co-operative enterprise conveniently and successfully under the Companies Act as it stands, together with the special modifications of the Act already established by the Dairy Industry Act, 1908."

The Legislature in New Zealand was compelled to take notice of the decision in *Shalfoon* v. *Cheddar Valley Dairy Co.* in order to save producers' companies from its possible reactions. By Sect. 2 (3) of the Dairy Industry Amendment Act, 1924, existing contracts of exclusive dealing (save that which was the subject of the New Zealand Court's judgment) were validated and the companies given protection for a further six months after the passing of the Act.

In the *English Hop Growers' Case*, it was objected that the

[1] *Johnson* v. *Eltham Dairy Factory Co. Ltd*, [1931] N.Z.L.R. 216.
[2] [1923] N.Z.L.R. 122.

amount payable under the agreement, if the defendant failed to deliver his hops to the society, was a penalty; but the court held that the plaintiff was entitled to recover the full amount claimed under the clause, because a breach such as that which had been committed by the defendant was capable of occasioning serious damage which it might be difficult to value exactly or ascertain beforehand. The damage was really the undermining of the market and the undermining of the existence of the plaintiff society. The Dominion courts have generally taken the view that sums sought to be recovered by a company from a member on default of exclusive dealing were penalties, and therefore not recoverable. For example, in the *Port Huon Fruit Growers' Case,* there was a provision in the articles that upon default the member should forfeit a certain sum per case or per pound of fruit for each case or pound disposed of otherwise than to the company. Though this might reasonably have been regarded as a maintenance charge, necessary to keep the company in being and its services available to the member should he desire to resort to it, it was nevertheless held to be a penalty. In *Shalfoon's Case,* the company's articles had provided for the payment as liquidated damages of one pound per cow for each and every season or part of a season the member failed to supply milk to the company. It was said in the course of the judgment that a company by its articles could not impose on its members any pecuniary obligation over and above their statutory obligation to pay up the amount of their shares.

Methods of Increasing Capital. One difficulty that co-operatives frequently have to face is that of providing for an increase of their capital *pari passu* with the increase of their turnover without resorting to persons outside their membership. They have sought to do this through their articles of association, but it seems that this simple device is not available to them. It is at this point that they are liable to find their actions in conflict with the principle of limited liability. The co-operative companies might, of course, make provision in their articles for the assumption by members of a capital liability beyond the amount actually called up, leaving an adequate margin of uncalled capital available when and as required. But calls could not be made only from those who

increased the amount of their dealings with the company. In *Macdonald* v. *Normanby Co-operative Dairy Co. Ltd.*, a clause in the articles provided that the directors might at any time require any shareholder to take up additional shares beyond the number held by him, so that such shareholder should hold shares in the company to the number computed on the basis of three shares for every 250 lb. of butterfat supplied by him. This article was amended by a resolution of a majority of the shareholders, the appellant *inter alios* dissenting. The alteration consisted of substituting the words "one share for every 60 lb. of butterfat" in lieu of the existing provision, thus increasing the liability of the shareholders beyond what was contemplated when they became members of the company.[1] It was contended at the trial that the amendment of the articles offended against the provisions of the Companies Act as to limitation of liability, a contention which Salmond, J., referred to with approval in *Shalfoon's Case*, stating that a cardinal principal of the Companies Act was that the investor should purchase immunity from liability beyond a certain amount. The court having found against the company, it was necessary to validate all other allotments of additional shares in co-operative dairy companies made in conformity with the terms of the articles of association.[2]

A later New Zealand case, *Otaraia Co-operative Dairy Co.* v. *Flynn*,[3] shows that the provision in the articles of the Normanby Dairy Co. as to shareholders being required to take up additional shares was invalid, as well as the attempted amendment. The articles of the Otaraia Company provided that every shareholder supplier was bound to supply to it the milk from one cow for every share allotted to him and that he should hold as many shares as he milked cows. If for any of the reasons specified in the articles[4] the shareholder was unable to continue to supply milk, he might determine his contract on payment to the company of

[1] In *Hole* v. *Garnsey*, [1930] A.C. 472, it was stated that a contract to take extra shares and incur extra liability which is not set forth but only introduced through a general power of the amendment of the rules is too vague to be enforced and is bad at common law.

[2] By Sect. 2 (1) of the N.Z. Dairy Industry Amendment Act, 1924.

[3] [1930] N.Z.L.R. 197.

[4] These included his death or the sale of his land, so that the payment, if valid, would have been inescapable.

40s. for every share he held. The defendant having failed to supply milk, the company sued for the balance due on the shares. It was decided that even if the penalty of 40s. per share were severed from the other conditions, the remaining conditions were invalid and unenforceable as being in unreasonable restraint of trade and exceeding what was reasonably necessary for the protection of the plaintiff company both in time and space.

It is now clear that a company cannot impose any variation of a contract subsisting between it and a member, if the member does not consent to such variation. A contract embodied in the articles of association is to be distinguished from a mere regulation of the company which could be imposed by its legislative authority even as against dissenters.

Remedies for Breach of Agreement. The courts have seldom been asked to afford producers' companies relief by way of the equitable remedies of specific performance and injunction. In *Pakenham Upper Fruit Co. Ltd.* v. *Crosby*,[1] the High Court of Australia, confirming the decision of the Supreme Court of Victoria, refused to afford such relief. The articles of the company provided that each member should deliver to the company at one of its packing sheds 95 per cent of his fruit immediately after each variety thereof should be ready, suitable, and fit for harvesting, but not later than a certain date in each year. It was held that, assuming an obligation in these terms was imposed on each member of the company, it was not one in respect of which the court should, in the exercise of its discretion, at the instance of the company grant specific performance or an injunction.

Rights of Members. The rights of a supplier to a co-operative were considered in *Walsh* v. *Matamau Dairy Co.*[2] The articles provided that the member must not interfere with the company's employees in the execution of their duty, and that the directors or manager might refuse to take the milk of any shareholder who infringed this by-law. Following upon a quarrel between the plaintiff and the company's manager, the company refused to

[1] [1924] 35 C.L.R. 386. In another case an injunction was unsuccessfully sought to prevent a member from seceding from a growers' association.
[2] [1918] N.Z.L.R. 850.

take the plaintiff's milk. It was decided that there attached to the shares held by the plaintiff the right to have his milk purchased by the company. The refusal to deal authorized by the by-law must be confined to the occasion of the infringement or to the period of its continuance.

Agency. In *Bruce* v. *Good*,[1] it was decided that a co-operative dairy company acts as agent for its suppliers and that the company is not a mercantile agent within the meaning of the New Zealand Mercantile Law Act, 1908. Suppliers retained the property in the cream even after it had passed into the physical possession of the company and had been manufactured; and therefore a guarantor of the company could not obtain through a bank which held a bill of lading the suppliers' produce named in such bill of lading.

It may appear to the layman that the courts in Australia and in New Zealand have done all that they can do to place legal obstacles in the way of the development of the co-operative movement. This view is, of course, not justified by the facts. Although a contract to supply a product cannot be attached by articles of association so that the contract will derive its force solely from the articles, a co-operative is not precluded from entering into agreements with its members individually. It may appear strange that this practice was not adopted in Australasia as in other parts of the world, e.g. Denmark. One reason that suggests itself is that the method attempted was simple, was calculated to make the member acquiesce more readily, and was especially suited to the circumstances under which the turnover of membership was considerable. The frequency with which land changed hands, as compared with older countries, made it desirable to devise some means whereby the outgoing member could readily liquidate his obligations and the new member as readily assume them. Now that the sale of land is likely to be less frequent and the membership of a co-operative more stable, it is possible that the use of express contracts will be resorted to, though in some of the Australian States statutory enactments have

[1] [1917] N.Z.L.R. 514. But *cf. Verco Bros.* v. *Chapman Bros.*, [1932] S.A.S.R. 309, [1933] 49 C.L.R. 306, in which it was held that a grower does not retain the property in wheat delivered to a merchant for subsequent sale.

cleared away much of the difficulty by defining what the co-operatives are, and are not, permitted to do.

3. The Australian Constitution and Inter-State Trade

Historical Development of the Constitution since Federation. No adequate understanding of the various organizations for the regulation of internal markets in Australia is possible without some acquaintance with the relevant provisions of the Federal Constitution and with the development of judicial opinion in relation thereto. The stages in that development are fairly clearly marked. First, the constitution tended to be interpreted in such a way as to preserve the powers of the individual States, a view that was natural considering the difficulty experienced in inducing them to federate. Second, the courts during the war appeared to allow to the States powers which exceeded what was permitted by the constitution, but which might have been justified as necessary to the public safety and welfare. Third, judicial interpretation has recently tended to concede to the Commonwealth in matters of trade powers which the States are declared not to possess but which the Commonwealth itself is evidently not forbidden to exercise. This latest development may appear somewhat paradoxical, for what has happened is that the States have called upon the Commonwealth to do for them what the High Court has declared they cannot do for themselves. A brief historical review may serve to elucidate this very difficult subject, so far as it relates to attempts to build up marketing monopolies for primary products in Australia.

Sect. 92 of the Commonwealth Constitution provides that "trade, commerce, and intercourse among the States, whether by means of internal carriage or ocean navigation, shall be absolutely free." Sect. 51 gives to the Parliament, "subject to this constitution," power to make laws with respect to trade and commerce with other countries and among the States. The interpretation of these sections, but especially of the first-mentioned, has raised great difficulties for the courts, which have decided differently at different times. The crucial questions arising out of them are (i) whether the complete control of the marketing of a commodity by a State is invalid as being obnoxious to Sect. 92; and (ii)

whether the Commonwealth itself is likewise bound by the provisions of that section. Present judicial opinion is that a State is bound, but not the Commonwealth, by the provisions of Sect. 92. Yet there is no certainty that the courts will not some day disallow the Acts which the Commonwealth has recently based upon that opinion.

Before the war, when one of the architects of the constitution was concerned, as Chief Justice, with its interpretation, the High Court had given decisions favourable to a "State rights" view. If the precedent of the Canadian constitution had been followed and adequate powers conceded to the Commonwealth by the States, a vast amount of legal turmoil would have been avoided. Still, until 1914, it seemed to be fairly clear that the relations between the Commonwealth and the States should be regulated by the principle of mutual non-interference.[1] By the decision in *Rex* v. *Barger*,[2] regulation of domestic trade and commerce was forbidden to the Commonwealth. It must be admitted, however, that a minority of the High Court was not willing to accept these views.

The exigencies of war moved the course of judicial interpretation out of the narrow path it was beginning to follow. The opinion was expressed by a leading member of the bar that the constitution had been given an interpretation during these times which would have been "quite unimaginable in time of peace."[3] The High Court was first called upon to consider questions arising out of the exercise by States of their power of expropriation under eminent domain, in so far as inter-State trade might be consequentially effected. The New South Wales Wheat Acquisition Act, 1914, gave the State power to expropriate wheat and purported to save inter-State contracts relating to wheat by limiting the application of the Act to contracts made within the

[1] In 1911, and again in 1913, unsuccessful attempts were made by referendum under Sect. 128 of the Constitution to give the Commonwealth power to deal with intra-State trade. Inter-State protection in pre-federation days was effected in devious ways (in addition to tariffs); e.g. by a W. Australia Act of 1880, the fee for a licence to sell local wine was £2; for wine of other States it was £50.

[2] [1908] 6 C.L.R. 41.

[3] An essay by R. G. Menzies, Esq., K.C.—"The Rule of Law during the War." Quoted in Kerr—*Law of the Australian Constitution.*

State for performance within the State. Despite this provision, wheat that was the subject of an inter-State contract was seized. In *New South Wales* v. *The Commonwealth*,[1] it fell to the High Court to determine whether the State Act infringed Sect. 92 of the Constitution. It was decided that this was not a law relating to commerce, but to the liability of all private property to acquisition in case of necessity and that it was not affected by Sect. 92. The effect upon inter-State trade was *incidental* to the purpose of the acquisition, the object of the Act being to acquire wheat to feed the citizens.[2] The court decided in another case, however, that the New South Wales Meat Supply for Imperial Uses Act, 1915, was invalid in so far as it purported to authorize the State Government to prevent the export of livestock to another State.[3] This judgment was almost immediately overruled in *Duncan* v. *Queensland*,[4] a case in which the Queensland Meat Supply Act, 1914, was similarly challenged. It may be a virtue that the High Court has always maintained the right to reverse its own decisions. In any case, its action left the States free for the time to expropriate goods without regard to consequential effects upon inter-State trade, and this power of acquisition was later employed, wrongfully as it turned out, in order to regulate the dried fruits market.

The efforts of the Commonwealth Government to achieve some measure of uniformity in the fixing of prices throughout Australia were responsible for a judgment which allowed it, during the then state of war, to fix the price of bread within limits of locality.[5] Under different circumstances, this decision might have suggested that Sect. 92 did not bind the Commonwealth.

After peace had been restored, the interpretation of the Constitution began to resume its former course. The Queensland Profiteering Prevention Act, 1920, which made it unlawful to sell

[1] [1915] 20 C.L.R. 54.

[2] From the judgment of the Privy Council in *James* v. *Cowan*, [1932] A.C. 542, it appears that the *Wheat Case* was rightly decided, but for the wrong reasons. The view of the High Court in that case was that the Crown having become the owner could do what it liked with its own. Their Lordships considered that the real objects of the legislation should be looked to in order to see whether it was directed against inter-State trade.

[3] *Foggitt Jones & Co. Ltd.* v. *N.S.W.*, [1916] 21 C.L.R. 357.

[4] [1916] 22 C.L.R. 556.

[5] *Farey* v. *Burvett*, [1916] 21 C.L.R. 433.

any commodity at a price higher than the declared price, was held invalid so far as sales of commodities stipulated to come from another State were concerned.[1] The decision in this case appeared to limit the occasion when articles might be removed from the scope of inter-State trade to expropriation by the State.[2]

Power of a State to Regulate Trade. From what has been said, it may perhaps be clear what are the difficulties which confront a State when it endeavours, either directly or indirectly through statutory bodies, to control the marketing of the whole of a commodity produced within its borders. It does in fact possess the power to expropriate goods, and against the abuse of that power there is a political remedy available to the community, but no legal remedy available to the individual.[3] But the question whether the exercise of the power of expropriation does or does not infringe the section of the constitution requiring trade between the States to be absolutely free appears to depend upon the real object and the necessary effect of legislation which arms the Executive with powers of compulsory acquisition. An individual may not be deprived of his goods in order to prevent his exercising his freedom of trade among the States. If the State requires the goods for its citizens or for itself, the fact that acquisition may incidentally affect inter-State trade does not render it invalid. But the Privy Council has destroyed the doctrine of the "magic of expropriation" in the wide form which was given to it in the *Wheat Case*. The view of the High Court had been that an act of expropriation by a State did not infringe Sect. 92, if the change of ownership was not directly conditioned upon the fact of inter-State trade but upon some other fact, e.g. the maintenance and preservation of an industry.[4]

Cases on the Regulation of the Dried Fruits Trade. These somewhat recondite matters may in a measure be elucidated by reference to the trade in vine dried fruits. The growth of that

[1] *W. & A. McArthur* v. *Queensland*, [1920] 28 C.L.R. 530.

[2] See Kerr—*Law of the Australian Constitution*, p. 82.

[3] It has been laid down that where a constitutional power exists, the question of any abuse of it is one for the electors, not for the courts. (*Attorney-General for Ontario* v. *Attorney-General for Canada*, [1912] A.C. 571, per Lord Loreburn at p. 583.)

[4] See, on this point, the dictum of Starke, J., in *James* v. *Cowan*, [1929–30] 43 C.L.R. 386.

industry since the war has resulted in an output vastly in excess of Australia's requirements. With the heavy fall in export prices, some means of making the tariff protection effective, and thus of securing a higher domestic price, seemed essential, if the industry was to survive upon the existing scale. Accordingly, the States concerned, in concert with each other and with the Federal Government, passed Dried Fruits Acts with the object of regulating the trade.[1] The Acts purported to give absolute control over dried fruits to the Minister (or to a Board) in each State, who was authorized to acquire them compulsorily if need be. There was also power to determine what proportion of any dried fruits in any year was to be marketed outside the Commonwealth. It remained for the States to share among themselves the internal trade, including that with the non-producing States, Queensland and Tasmania; and for the Commonwealth, when the courts frowned upon the State laws,[2] to crown their efforts by itself making legislative and administrative provision with respect to inter-State trade. The Federal Act was passed in 1928—"An Act relating to trade and commerce with other countries and among the States in certain dried fruits."[3] The effect of Sect. 3 (1) of the Act is to prohibit (i) delivery of dried fruits for carriage to another State, (ii) carriage to another State, except as provided by the regulations.[4] The regulations under the Act made provision for the issue of licences to carriers and others to trade inter-State,

[1] All the Acts passed by the States owe much of their wording to the war-time expropriation Acts and especially to the Queensland Meat Supply Act and the N.S.W. Wheat Acquisition Act. Victoria: Dried Fruits Acts, 1924–32. Sect. 4 of the original Act empowers the Premier of Victoria (*a*) to join either with (i) the Prime Minister of the Commonwealth and the Premiers of the States or any of them; or (ii) the Premiers of the other States or any of them in any arrangement for concerted action in the marketing of Australian dried fruits. The section is reminiscent of the Wheat Scheme Acts of Victoria and W. Australia. S. Australia: Dried Fruits Acts, 1924–29. W. Australia: Dried Fruits Acts, 1924–29. N.S.W.: Dried Fruits Acts, 1927–33. Commonwealth: Dried Fruits Act, 1928.

[2] In *James* v. *S. Australia*, [1927] 40 C.L.R.1, it was held that Sect. 20 of the S. Australia Dried Fruits Acts, 1924–25, was obnoxious to Sect. 92 of the Commonwealth Constitution, so far as it authorized a determination by the Board limiting the quantity of dried fruits that might be marketed within the Commonwealth.

[3] The Commonwealth had already provided for the regulation of the export trade by the Dried Fruits Export Control Act, 1924.

[4] Dried Fruits (Inter-State Trade) Regulations (Commonwealth Statutory Rules, 1928, No. 91).

such licences being issued by the "prescribed authority" in each State, i.e. the State Dried Fruits Board. By the device of uniform State legislation, it was hoped to pave the way for Commonwealth-wide control of the industry and thus to get round the impediment of Sect. 92 of the Constitution. All the State enactments made formal provision for the saving of inter-State contracts and were expressed to be subject to the Federal Constitution. But it is evident that in this respect they did no more than pay lip service to that instrument; for they purported to give power to determine antecedently that any inter-State contracts for the sale of dried fruits should be entered into only upon such terms as should not weaken the monopoly sought to be established.

It is well perhaps at this stage to emphasize the fact that the State Dried Fruits Acts were at first held invalid, not because of the compulsory acquisitions provided for, but because the Boards, by apportioning the commodity between the export and other markets, were attempting the regulation of inter-State trade. Ever since the *Wheat Case*, it has been settled that the exercise of the power of expropriation is not of itself an infringement of Sect. 92 of the Constitution, and the State of South Australia had sought to rely upon that power after the decision in *James* v. *South Australia*. To the layman, puzzled by the fact that compulsory acquisition was but the first, though a distinct, step towards the regulation of inter-State trade, the words of the Chief Justice in *James* v. *Cowan*,[1] when dissenting from the majority view, may be comforting. His Honour said that the distinctive feature of the New South Wales Wheat Acquisition Act, 1914, was that it authorized expropriation of the property as such *simpliciter* without reference to inter-State trade. The South Australia Dried Fruits Act made the repression of inter-State trade the *causa causans* of the expropriation, which was only the means selected to carry out effectively the attempted control of the inter-State trade. Dried fruits for consumption

[1] [1929–30] 43 C.L.R. 386. This was an action against the Minister for Agriculture of S. Australia for seizing plaintiff's dried fruits, in which such seizure was upheld by a majority of the court. The judgment was overruled by the Privy Council in *James* v. *Cowan*, [1932] A.C. 542, their Lordships describing the judgment of Isaacs, C.J., as convincing.

within the State and for export beyond the Commonwealth were not compulsorily acquired and the remainder were and would necessarily be used for the purpose of inter-State trade operations.

Constitutional Position of the Commonwealth with Respect to the Control of Internal and External Trade. The Commonwealth, having rushed in with its own Act to stop the leak which had developed, found its efforts checked by the courts in a somewhat unexpected manner. Since *Mc Arthur* v. *Queensland*, it had been thought that the prohibition contained in Sect. 92 of the Constitution was not directed to the Commonwealth. What was said on this question in that case was, however, *obiter* and not vital to the judgment. In *James* v. *The Commonwealth*,[1] it was now stated that the validity of a Federal Act or of regulations made thereunder cannot be attacked on the ground of interference with inter-State trade and commerce. Sect. 92 of the Constitution protects inter-State trade against State interference, but does not affect the legislative power of the Commonwealth. It was held that the Dried Fruits Act, 1928, did not give preference to one State over another, but that the Regulations made thereunder did, and were therefore invalid as being obnoxious to Sect. 99 of the Constitution.[2] The fact that Queensland and Tasmania were not concerned in the control scheme and that there was no "prescribed authority" (as provided by the regulations) in those States was fatal. This omission was immediately rectified[3] by the appointment of the Collector of Customs (a Federal officer) for Queensland and for Tasmania to be the "prescribed authority" in those States.[4] Hence the Commonwealth Dried Fruits Act of 1928 remains in full force and the trade, both domestic and export, is effectively regulated.

An instructive comparison may be made at this point between

[1] [1928] 41 C.L.R. 442.

[2] Sect. 99: "The Commonwealth shall not by any law or regulation of trade, commerce, or revenue give preference to one State or any part thereof over another State or any part thereof."

[3] Commonwealth Statutory Rules, 1928, No. 135.

[4] The "prescribed authority" for Queensland is now "the Chief Veterinary Officer of the Department of Commerce in the State of Queensland" (C.S.R., 1934, No. 164). Under the Commonwealth Dairy Produce Act, 1933, the "prescribed authority" for Western Australia was "the Commonwealth Deputy Director of Navigation and Lighthouses for the State of Western Australia." Such are the mysteries of constitutional law!

the dried fruits trade and the butter trade. Australian dairymen were able to achieve for some seven years, by purely voluntary means, the same object as was contemplated by the dried fruits trade, viz. a domestic price higher than the export price in the face of a considerable export surplus. A sectional committee in each State (excepting Western Australia, which was normally an importing State) regulated the trade to other States so as to diminish internal competition. As the arrangement was constantly threatened by breaches of agreement and defections, some producers, agitated for more effective control through legislation. The decision in *James* v. *The Commonwealth* having shown that the Commonwealth was apparently competent to regulate inter-State trade, a system of control similar to that applied to dried fruits was instituted. The Commonwealth Dairy Produce Act, 1933, is similar to the Dried Fruits Act, 1928, except that a poll of producers was required to be held. By a majority of 50 to 1, the poll held on 11th October, 1934, favoured the operation of the Act. As with dried fruits, the method of control is by the issue of licences to trade inter-State and the fixing of export quotas for producers.[1] Each of the States has enacted the necessary complementary legislation whereby local Boards may act as "prescribed authorities."[2]

In the case of the commodities already noticed, the Commonwealth has been able to save the States from the crippling effect of the judgments of the courts. But it has not proved possible to do this in the case of the special marketing control instituted in Queensland, and to some extent elsewhere, because the articles concerned are produced in a restricted area. The Queensland Primary Producers' Organization and Marketing Acts have been held to be unconstitutional[3] in so far as they provide that commodity Boards may acquire the total production without regard to the wishes of a dissenting minority. In order to restore the position the Commonwealth would have to legislate to set up

[1] See Commonwealth Statutory Rules, 1934, No. 50. No. 131.

[2] Queensland: Dairy Products Stabilization Act, 1933. N.S.W.: Dairy Products Act, 1933. W. Australia: Dairy Products Marketing Regulation Act, 1934. S. Australia: Dairy Produce Act, 1934. Victoria: Dairy Products Act, 1933. Tasmania: Dairy Products Act, 1933.

[3] *The Peanut Board* v. *Rockhampton Harbour Board*, [1932–33] 48 C.L.R. 266.

"prescribed authorities" in each State for a dozen or more commodities peculiar to Queensland and unlikely to be produced in other States.

While it is clear that there is an express prohibition against the States interfering with inter-State trade in the manner already described, a margin is left for petty interference whereby one may seek to limit competition from the products of another. The States are not deprived of all power to regulate trade so that inter-State commerce shall in no wise be affected. They have, for example, quarantine powers which may be exercised in such a way as to exclude the products of other States. Thus in *Ex parte Nelson*,[1] it was held (three judges dissenting) that the sections of the New South Wales Stock Act, 1901, which restrict the movement of livestock into the State from another State, or colony, or country where disease exists do not violate the provisions of the Commonwealth Constitution either as to the power of quarantine, or of customs, or as to freedom of inter-State trade. That this case was doubtfully decided may be seen from the High Court's refusal to allow Victoria to maintain an embargo upon potatoes from Tasmania and to deny them transit on the Victorian Railways to the Sydney market, though the Victorian Ministry claimed to be exercising quarantine powers.[2] Again, it has been decided that a State may lawfully require that a motor vehicle shall pay a registration fee though it trades from another State.[3] In *Crothers* v. *Sheil*[4] it was held that the New South Wales Milk Act, 1931, did not contravene Sect. 92, though milk produced for consumption in a certain area was vested compulsorily in a Milk Board.

Present State of Judicial Opinion. What is being sought in Australia is to establish monopolistic economic organizations with differential prices, which a unitary state would have no difficulty in legalizing. The present *via media* in economic policy whereby the Commonwealth does for the States what they cannot do for

[1] [1928] 42 C.L.R. 209.
[2] It was asserted that the aim of the Victorian Ministry was to increase the State's share of the Sydney market. *State of Tasmania* v. *State of Victoria*, [1935] 52 C.L.R. 157.
[3] See *R.* v. *Vizzard; Ex parte Hill* (50 C.L.R. 30), and *Willard* v. *Rawson*, [1933] 48 C.L.R. 316.
[4] 49 C.L.R. 399.

themselves is leading to an absurd complexity of administration which some might hail as a prelude to collectivist control but which many will deplore as more costly than it is worth. And the whole structure is being built upon foundations for which there does not seem to be any unimpeachable legal authority. Despite the judicial decisions thus far arrived at, the question whether Sect. 92 of the Constitution binds the Commonwealth cannot be said to be yet finally answered, though the Commonwealth's power over inter-State trade would appear, on the present view, to be absolute, so long as it does not give preference to one State over another.[1] It has been argued that the answer depends upon what construction is to be given to the provisions of Sect. 51 (i).[2] That Section is expressed to be "subject to this constitution" and it may therefore be asked whether Sect. 92, if it were directed to the Commonwealth, would nullify Sect. 51. Perhaps we may comfort ourselves meantime with the reflections of Rich, J., in *James* v. *Cowan*, where he said: "After many years of exploration into the dark recesses of this subject, I am content to take the decided cases as sailing directions upon which I may set some course however unexpected may be the destination to which it brings me and to await with a patience not entirely hopeless the powerful beacon light of complete authoritative exposition from those who can speak with finality."

4. Co-operative Legislation

Statute Law in Australasia. It may appear remarkable, but it is none the less true, that co-operative legislation of a distinctive character did not appear in Australasia until after the war.[3] Statutes of the type of the Industrial and Provident Societies

[1] The dried fruits and dairy produce marketing legislation does not rest upon a really secure legal basis.

[2] See P. E. Joske—"Does Sect. 92 of the Constitution bind the Commonwealth?" (*Australian Law Journal*, September, 1930.) Sect. 51 runs: "The Parliament shall, subject to this Constitution, have power to make laws for the peace, order, and good government of the Commonwealth with respect to: (i) Trade and commerce with other countries and among the States."

In *James* v. *Cowan*, [1932] A.C. 542, their Lordships said that it appeared to them to be unnecessary to undertake the difficult task of defining the precise boundaries of the absolute freedom granted to inter-State commerce by Sect. 92; and elsewhere they observed that the application of Sect. 92 would remain for them an open question.

[3] Danish co-operation was built up without any statutory provision.

Acts, as has already been observed, were in force in most of the Australian States and in New Zealand, but they contained no original features and were not generally availed of by agricultural producers. Legislation providing for financial assistance from the State for the erection of factories, mills, processing plants, and stores by co-operatives dates mainly from 1914 and is not otherwise concerned with the organization of rural industries.[1] Loan applications under these Acts have not been as numerous as anticipated, partly because capital could be secured elsewhere under conditions often less exacting than those laid down by the state. Apart from these provisions, the encouragement by statute of agricultural co-operation, of the organization of rural industry, and of co-operative marketing has been undertaken on a considerable scale only in Queensland and in New South Wales and in the latter State the legislation has not been widely implemented.

Provision in Queensland. The comprehensive code in Queensland relates to the encouragement of co-operation, to the organization of rural producers and their industries, and to the marketing of primary products through pools. Its genesis may be traced to the Wheat Pool Act, 1920, and the Cheese Pool Act, 1921, though some precedent is to be found in the thorough-going regulation of the sugar industry from 1915. The Primary Producers' Organization Act, 1922, was intended "to promote the agricultural and rural industries by the organization of the primary producers of Queensland in a completely unified national organization." In the same year, the Primary Products Pools Act made provision for the extension of the pooling system by the constitution of boards representing growers of specified commodities. In 1923, special provision was made for the fruit industry by the Fruit Marketing Organization Act and for the promotion of co-operative enterprise by the Primary Producers' Co-operative Associations Act. A considerable development of these statutes has taken place since their first enactment, but it will suffice to describe the

[1] E.g. Queensland: Co-operative Agricultural Production and Advances to Farmers Acts, 1914–19; Co-operative Sugar Works Act, 1914; Agricultural Bank Acts, 1923–31. S. Australia: Loans to Producers' Act, 1917. Victoria: Cold Stores for Fruit Act, 1914; Primary Products Advances Acts, 1919–22. Tasmania: Advances to Fruit-growers Acts, 1918–19. New Zealand: Fruit Preserving Industry Act, 1913. Many of the so-called co-operatives are not distinguishable from ordinary mercantile companies.

existing position. The principal legislative provision is now contained in the Primary Producers' Organization and Marketing Acts, 1926 and 1928, which repeal the Primary Products Pools Acts. Fruit remains outside the general Act, but may be brought under it where growers so desire; and wheat is still subject to the Wheat Pool Acts. The central body is the Council of Agriculture, elected from the members of the commodity boards and financed by precepts levied upon the latter.[1] The function of the Council is advisory, its general aim being to further the interests of producers and their industry. Local Producers' Associations, which are registered by the Council, form a link between it and the individual farmer. These Associations may be organized on a commodity basis or they may consist of producers generally in any district. They are able to furnish data to the Council of Agriculture and to the commodity boards as to local output and requirements and are expected to take the initiative in rural matters. The commodity boards, which may control more than one commodity or may amalgamate for this purpose, come into existence at the request of the growers. A prescribed number of these petition the Governor-in-Council to have their product declared a commodity for the purposes of the Act, and if no poll is demanded on the question (or, if demanded, is carried), the Commodity Board is elected by growers for a specified period and their product vested in it. The Board may also act as a Marketing Board or it may leave the sale of produce to the existing channels of trade, subject to such supervision as it may think desirable. The Boards may make levies on produce to cover their expenses and the amount of the precept paid to the Council of Agriculture; and may, subject to ministerial approval and to the growers' right to demand a poll, establish a fund by this means for insurance or any other object in the interests of growers. Somewhat similar provision is made for the organization of sugar producers through Mill Suppliers' Committees, District Cane Growers' Executives, and the Queensland Cane Growers' Council; but this Council has no control over the marketing of sugar, which is

[1] The Wheat Board and the Committee of Direction of Fruit Marketing are regarded as Commodity Boards for this purpose. By the Wheat Pool Amendment Act, 1925, wheat-growers were given the right to petition to come under the general pooling Acts.

otherwise regulated. Under the Fruit Marketing Organization Acts, 1923 and 1925, local associations in the various fruit-growing areas are provided for and sectional group committees representing the several branches of the industry. The central body is the Committee of Direction of Fruit Marketing, which has full control over the marketing of all fruit subject to the Act.[1] Provision is made in the Primary Producers' Organization and Marketing Act, 1928, for removing any class of fruit from the control of the Committee of Direction and vesting it in a Commodity Board; and the Act may, if producers so desire, be applied to all fruit, in which case the Committee of Direction ceases to function. All the legislation has been made flexible, so that any particular degree or form of organization may be adopted. Again, it is purely permissive and cannot be brought into force, nor continued in force, with respect to any commodity unless a majority of 60 per cent of votes in a poll of not less than 50 per cent of those eligible to vote is secured. Though some of the powers conferred may appear drastic, they are not beyond what is reasonably necessary for the successful administration of the law. Thus the Commodity Boards, subject to ministerial approval, are empowered to issue (and withhold) licences for the manufacture of a commodity or for the carrying on of wholesale trade. A later amendment[2] provides for the election of boards by the "ward" system where desired and gives the Governor-in-Council power to direct any board to raise by way of levy on a commodity a fund as security to meet any liability undertaken by government on the board's behalf.[3]

The Queensland Primary Producers' Co-operative Associations Act may be regarded as an extension of the widely current legislation relating to industrial and provident societies. It provides

[1] The power of the Committee to undertake the actual marketing of fruit was successfully challenged (*Committee of Direction of Fruit Marketing* v. *Collins*, [1925] 36 C.L.R. 410), but the amending Act of 1925 removed all doubts as to the Committee's powers.

[2] The Primary Producers' Organization and Marketing, Fruit Marketing Organization, Wheat Pool, and Diseases in Plants Acts Amendment Act, 1930.

[3] The compulsory provisions of the legislation have been held to be invalid in so far as they may affect inter-State trade. The whole system is therefore in jeopardy, but is likely to be continued upon a voluntary basis, since any dissenting minorities would probably be small.

for the formation, registration, and management of primary producers' co-operative associations, which may be Local Producers' Associations registered by the Council of Agriculture under the provisions of the Primary Producers' Organization and Marketing Acts. Co-operative associations may be linked in co-operative federations and are authorized to carry on the usual activities of collecting, processing, manufacturing, packing, storing, transporting, and selling the produce of their members. They may also sell farm and domestic supplies and carry on co-operative agricultural enterprises. Recognition is expressly given by the Act to the contractual obligations subsisting between members and their associations, and between the associations and their federations. Contracts may be made requiring members to sell their product exclusively through the association for a specified time and are to be deemed lawful notwithstanding that they might otherwise be held invalid as being in unreasonable restraint of trade. This provision for overriding the common law is the first instance in Australia with respect to agricultural co-operation and has been followed by New South Wales and Tasmania.

Provision in New South Wales. New South Wales is the only other State to enact co-operative legislation upon what may be termed the grand scale. The Co-operation, Community Settlement, and Credit Acts, 1924–29, may be compared in their wide sweep with the Queensland Primary Producers' Organization and Marketing Acts. Societies of various types may be formed under the New South Wales Acts for the purpose of promoting not only the economic, but also the social interests generally of members. Rural Societies are those which carry on the usual work of producers' co-operatives with regard to processing, storage, marketing, supplying requisites, services, etc. Trading Societies, which are authorized to carry on any business, trade, or industry, whether wholesale or retail, include such organizations as consumers' co-operatives. The Act is sound in recognizing that the privileges accorded to co-operative organizations need not be confined to agricultural industry. Community Settlement Societies are intended to acquire land and promote settlement by co-operative methods, and Community Advancement Societies to provide public utilities, including even factories, stores, abattoirs,

etc. Building Societies, Rural and Urban Credit Societies, and Investment Societies are also provided for; and societies that are similar in type may federate. Sect 77 (i) of the Act allows contracts of exclusive dealing between the members and their societies for stipulated periods. As in Western Australia, Tasmania, and Queensland,[1] a restriction is placed on the use of the word "co-operative," only a society under the Act being entitled to include the term in its name. By the New South Wales Co-operation (Amendment) Act, 1931, societies may require members to take up additional shares.

In New South Wales separate provision for marketing is made by the Marketing of Primary Products Act, 1927, and subsequent amendments. The preamble states that the purpose of the Act is "to promote primary production by the formation of Marketing Boards representing producers and consumers of certain products; to provide for the taking of polls of such producers prior to the formation of the board for the product in which they are concerned; to confer upon such Marketing Boards power with respect to marketing the product and making certain levies on the producers; to provide for the collection of statistics relating to produce, etc." As in Queensland, a Marketing Board may control several commodities and similar wide powers are conferred with respect to the vesting of produce in the board and to its actual marketing. Ambitious and perhaps scarcely realizable provision is made regarding the duties of the Director of Marketing under the Act, including *inter alia* the publishing of "forecasts of primary production in Australia and New Zealand and such other countries as the Minister may deem advisable." A Director of Marketing was appointed in July, 1927, and a State Marketing Bureau established, but the Act has not been much availed of by producers. Wool, dried fruits, and fresh milk are outside its scope, the first owing to the opposition of the interests concerned and the other two commodities because provision has elsewhere been made for them. The preliminary petition asking that a commodity

[1] W. Australia: Companies Amendment Act, 1929, Sect. 2. Tasmania: Co-operative Industrial Societies Act, 1928. Queensland: Primary Producers' Co-operative Associations Act, 1923. The N.Z. Co-operative Pig Marketing Companies Act, 1933, provides that the companies are not to describe themselves as co-operative unless actually so.

be proclaimed for the purposes of the Act must be signed by 100 producers or by not less than half of those engaged in the industry. Voting on this question is compulsory. A two-thirds majority, since reduced to 50 per cent, is required to carry a proposal to constitute a Marketing Board.

Provision in Tasmania. The Tasmanian Co-operative Industrial Societies Act, 1928, represents a modest extension of the principles of the Industrial and Provident Societies Acts in force in most British countries. By Sect. 31 (2) agreements relating to exclusive dealing, if for a period not exceeding five years, are to be deemed lawful, and the Act contains a novel provision as to exclusive *buying* by members from their societies of any specified supplies or services.

Wheat Pool Legislation. Since the war, the co-operative marketing of wheat through pools has been responsible for much legislation dealing with that commodity. As already noticed, the Queensland Wheat Pool Act, 1920, was the first post-war provision for a permanent pool organization. In no other state is the whole crop controlled by one body. The Victorian Wheat Growers Corporation, as the wheat pool is named in that state, is authorized to engage in marketing operations by the Victorian Wheat Growers Corporation Act, 1921. The South Australian Wheat Pool for the year 1924–25 was given statutory recognition by the Voluntary Wheat Pool Agreement Ratification Act, 1924, extended in 1925 to cover subsequent harvests. In these two states, statutory provision is also made for the guaranteeing by the State Treasurer of advances made to the wheat pools by the trading banks, but finance is now made available through the Commonwealth Bank. In other respects there is nothing of special importance in the legislation dealing with wheat marketing.

Generally it may be said that the co-operative legislation of Queensland, New South Wales, and Tasmania is fairly adequate to the needs of agricultural producers. It enables them to form such organizations as the special nature of their industry requires; it frees them from the hindrance otherwise imposed by legal difficulties regarding monopoly and restraint of trade; and it covers most of the subsidiary activities relating to finance, storage, etc. While the legislative provision in the other states and in

New Zealand is less satisfactory, example and experience have been furnished upon which producers in those areas may, if they choose, base their claims to more adequate powers.

5. The Legal Background of Export Control

Legislative Provision in Australia and New Zealand. Since the war, eight statutory authorities have been set up in Australasia for the purpose of regulating the export trade in meat, dairy produce, dried, fresh, and canned fruits, honey, and wine.[1] It is proposed to examine briefly the statutory provisions under which they are constituted. The first enactment was the New Zealand Meat Export Control Act, 1921–22. The preamble to this measure is significant in that it recognizes that a radical departure from previous economic policy was in contemplation. It recites that the economic welfare of the country had lately been adversely affected, partly on account of falling prices and partly on account of high marketing costs; and that the establishment of a Board of Control to act as the agent of producers in all matters connected with the disposal of their produce would promote the public welfare. The statute is mandatory, its mere enactment bringing it into operation without further reference to the producing interests.[2] Subsequent legislation, passed at a time when economic stress was not so great, is permissive and no statute has come into force unless a majority of producers has favoured this course.[3]

Nature of the Control Bodies. It will readily be understood that the method of constituting these statutory authorities and the definition of the powers they are to exercise raise problems of considerable difficulty. Although the control boards and the governments are emphatic that they are in no sense state organizations, at least one government representative is appointed to each. Non-producer interests receive some representation in most cases, but producers are always in a majority. There is great variety in the methods of election which, in some instances, are

[1] The marketing of Australian pearl shell is also subject to control, as was New Zealand kauri gum for a time, but these commodities are outside the scope of the present survey.

[2] They had, in fact, been consulted beforehand.

[3] E.g. the Australian Fresh Fruit Overseas Marketing Act, 1927, was not implemented.

complicated in character. The qualifications of electors are also variously determined. In some cases, to be a producer of a commodity is sufficient qualification without reference to the quantity produced; in others, the electorate is not composed of the general body of producers, but of the directors of factories where manufacturing or processing takes place. Thus the Australian Dried Fruits Board is elected directly by the producers who exercise only one vote each. On the other hand, the Dairy Produce and Canned Fruits Boards are elected by the directors of factories and canneries, but factories producing less than 25 tons of dairy produce per annum or canneries whose output is below 120,000 30-oz. tins are excluded. Additional votes are allotted to the factories in accordance with the scale of production and the system of preferential voting is in vogue.[1]

The method of electing the New Zealand Dairy Produce Board is the most elaborate of all. For the purpose of representation, the country is divided into three wards, two in the North Island and one in the South Island.[2] Each supplier of a dairy factory may exercise one vote in his ward, though he may also vote in another ward if he supplies a second factory there. The votes are counted by factories, the names of these being printed on the ballot-papers. The returning officer then allots to the candidate receiving the greatest number of suppliers' votes at each factory additional votes, known as "tonnage votes," in accordance with the scale of production of each unit.[3] The method of electing the New Zealand Meat Producers' Board is equally unique. The sheep-owners in the various electoral districts choose delegates who constitute an Electoral Committee. The number of delegates from each area bears some proportion to its sheep population. The Electoral Committee assembles in August of each year for the purpose of electing the producers' representatives to the

[1] The Regulations governing the constitution of the Australian Boards are: Canned Fruits Export Control (Poll and Election of Board) Regulations; Dairy Produce Export Control (Election of Board) Regulations; Dried Fruits (Election of Board) Regulations. See Commonwealth Statutory Rules, 1901–27, pp. 2761, 2788, 2822.

[2] See Agriculture (Emergency Powers) Act, 1934. Three members are appointed by the Governor-General, and the N.Z. Co-operative Dairy Co., the largest concern in the country, also appoints a member.

[3] See N.Z. Dairy Produce Export Control Amendment Act, 1926.

Board. Sheep-farmers who own 100 sheep or more are qualified to vote in the election of this Committee.[1] Beef or pork producers as such do not participate.

Powers Delegated by the State. The powers conferred on the produce boards are extensive. No export of a commodity may take place save in accordance with their determination and all export is controlled by a system of licences.[2] The boards may enter into contracts for the shipment and insurance of produce as agents for the owners, may establish agencies in London, and expend part of their funds in advertising. They may, if they think fit, assume complete control of a commodity and market it on behalf of the owners. In order to finance the operations of the Boards, levies, as prescribed by regulation, may be made upon produce.[3] Generally it may be said that the Boards have power to do all that pertains to the handling, transport, storage, insurance and sale of the commodities with which they are concerned, and that the extent to which this wide authority is exercised depends upon the policies formulated from time to time.

It is not intended to venture into the realms of political theory in order to characterize these statutory bodies. So far as the general principle of limiting individual enterprise in certain directions is concerned, the issue is not merely a question of fact as to whether the new policy does or does not result in greater net financial returns to producers. The significance of the control boards as politico-economic entities is something to be pondered, as well as the social desirability of thus regulating the relations between individuals. It is evident from the hesitating and partial manner in which the new authorities have exercised their powers that the implications of this departure were not sufficiently realized at the time it was made. Like the Farm Board in the United States, the control boards were presented in effect with a

[1] See Regulations under the Meat Export Control Act: Election of Producers' Representatives (*N.Z.Gazette*, 7/6/23, p. 1612). Of the qualified electors the percentage exercising the franchise has been low, perhaps on account of the indirect method of election. 1923: 23·53 per cent; 1924: 25·31 per cent; 1925: 26·27 per cent; 1926: 31·81 per cent.

[2] Export control does not apply to Australian dairy produce exported to any port between the 90th and 180th degrees of longitude and north of the 30th parallel of latitude.

[3] In Australia, the power to make levies is given by a separate Export Charges Act for each commodity.

blank cheque and a number of suggestions as to how it should be filled in. Indeed, had the interests concerned not been convinced that the powers conferred would be but tentatively exercised in a process of experimentation, they would never have subscribed their assent. So that the boards, from one point of view, are largely in the position of governments which implement policy with an eye upon the electorate and an ear constantly attuned to catch the note of current opinion. They are not to be confused with those statutory authorities which control some economic activity independently of any electorate, but are rather to be likened to a local body. The control boards have, in fact, the fundamental weakness that they are neither business concerns pure and simple, able to determine and pursue a fixed line of policy, nor mere political bodies and, as such, not directly concerned with the management of economic enterprises. In respect of one all-important matter, viz. the limitation of production,[1] they have no power at all, nor would such power conceivably be conceded to them. It has been suggested that they represent a step in the direction of functional devolution, but this can only be true in the sense that they relieve governments, to some extent, of the troublesome business of devising measures to ease producers' burdens. The control boards do not, in fact, assume any function which the state had hitherto exercised or would normally perform.

The powers delegated to the boards by the state are beyond any that producers would be likely to accord to bodies constituted on the voluntary principle. So that it is hardly true to say that the producers are merely given the right to manage their own affairs through a corporate organization. The power to expropriate the whole product of an individual's labour, even though tempered by a corresponding right to receive payment for the goods, is one that the state has not conceded to any other authority and which it would hesitate to exercise itself. The limited taxing powers of the control boards are inevitable and, in any case, not novel; while the sole right which some of them possess of making freight

[1] The N.Z. Agriculture (Emergency Powers) Act, 1934, gives the Dairy Board power to "regulate the production of dairy produce." But this does not imply limitation of output.

and insurance contracts on behalf of the whole body of producers and traders is perhaps the one that can be most clearly assigned to them.

The plenary powers conferred upon the control authorities leave little scope for dissentient interests to secure relief by legal action. In Australia, where it is associated with various forms of government financial assistance and lucrative exploitation of the internal market, there has been little desire to challenge the new regime. In New Zealand, considerable opposition developed when the Dairy Produce Board announced its intention in 1926 of taking complete control of marketing. This opposition was most manifest in the case of the proprietary factories. The Dairy Proprietary Association,[1] proceeding by way of an originating summons, asked the Supreme Court to determine numerous questions relating to the powers of the Control Board. The court refused to give any anticipatory interpretation of the Act or to construe the Board's statutory powers in the abstract without reference to facts and circumstances.[2] As a consequence of this judgment, an action[3] was brought by a proprietary factory seeking a determination as to whether (*a*) produce manufactured by a non-co-operative concern from milk and cream purchased outright from farmers was subject to control; and (*b*) dairy produce must actually be in existence before the Board could assume control. The plaintiff company sought to establish that the Board was a producers' Board and as such concerned solely with the output of co-operative concerns. The court had no difficulty in determining the first question in the affirmative, but was equally divided upon the second,[4] which it remitted to the consideration of a fuller court.[5]

[1] This was a protective society formed by the proprietary companies. The poll held on 17th October, 1923, had favoured the operation of the N.Z. Dairy Produce Export Control Act by 22,284 to 9255, which cannot, in the circumstances, be described as an overwhelming majority.

[2] *Dairy Proprietary Association* v. *N.Z. Dairy Produce Control Board*, [1926] N.Z.L.R. 535.

[3] *Waitaki Dairy Co.* v. *N.Z. Dairy Produce Control Board*, [1927] N.Z.L.R. 543.

[4] A similar point was raised in the Queensland Supreme Court in *The Peanut Board* v. *Rockhampton Harbour Board*. See Chapter II, Section 3.

[5] As absolute control of dairy produce was abandoned about this time, the question was never decided.

The control legislation necessarily made provision for the saving of existing contracts for the sale of produce. A New Zealand co-operative dairy concern, which had a protected contract of agency for the sale of its output, sought to have the produce of additional factories operated by it after the passing of the Dairy Produce Export Control Act exempted from control. It was held that this produce was subject to control and further that the agent for the co-operative could not make shipping contracts in respect of any part of the company's output.[1]

6. Legal Prescriptions as to Grades and Qualities; and as to Trade Practices

Nature of Prescriptions and Reasons for their Existence. The extent to which governments should prescribe standards for the regulation of trade is a matter upon which wide divergence of opinion exists. In one sphere, that of coining money and fixing standards of weights and measures, government prescriptions are accepted without question. But beyond this region attempts at regulation become more and more subject to criticism. Shall the state, for example, lay down standards of quality in conformity with which the exchange of goods shall take place, or shall it be left to traders and producers to decide whether or not any such action is worth while? Or shall the state, entering a region where its claims may be even more stoutly resisted, assume a supervisory function over trade practices and ensure that the public interest is duly regarded in those forms of control which have been gradually and spontaneously evolved within the organized exchanges? In some instances governments have even taken a step further into this dubious region by regulating market charges and selling commissions. Yet it may be said that in general the prescribed standards of quality constitute but the minimum required for the protection of the health of consumers or for safeguarding the community against the grosser acts of fraud. The quality of goods is, in fact, controlled in the main through Public Health Acts which prescribe hygienic standards for the

[1] *Southland Dairy Co.* v. *N.Z. Dairy Produce Control Board,* [1927] N.Z.L.R. 805.

preparation of foodstuffs and prohibit the use of harmful ingredients or preservatives. The laying down of standard qualities by official prescription is much less widely resorted to. In some cases it represents merely the acceptance and imposition by the state of trade practices which have long been current, and it is successful only to the extent that it does not run counter to the established usage or to the degree of organization of the market. Generally, it may be said that the existence of official standards will depend upon—

(i) Whether the trade in the commodity is, or is not, highly organized (the economies due to buying on grade are then available);

(ii) Whether distribution is effected through distant markets (in this case grading facilitates forward buying);

(iii) Whether the main market is outside the producing country and the export trade is considerable;

(iv) The degree of competition in the consuming countries and the extent to which consumers are able to exact high quality and purity.[1]

Historical Development. The history of the development and prescription of standards of quality in Australasia furnishes some clue to the above conditions. Dairy produce and meat were the first commodities for which grades were officially laid down. In fact, the earliest provision in the British Empire for the official grading of butter and cheese was made by the New Zealand Dairy Industry Act, 1894.[2] An effort to introduce compulsory standards failed in Queensland in 1897 and about the same time in South Australia, though in the latter State a voluntary system was reluctantly agreed to. Objection was based upon the undesirability of state interference and the fear that prescriptions might go to arbitrary lengths. So long as the trade was largely in private hands from the factory onwards, the short-run interests of those concerned were liable to be prejudicially affected by compulsory hygienic and quality standards. In the 'nineties

[1] Exporting countries must, of course, have regard to the legal prescriptions of importing countries; e.g. the prohibition of boric acid preservatives in butter in the United Kingdom has had reactions upon dairying practice in Australasia.

[2] The earliest Act in Australia was the Queensland Dairy Produce Act, 1904.

something was, however, effected in Australia towards the improvement of the quality of dairy produce by the provision of bounties on export where the required standard had been reached. Tasmania passed a Dairy Industry Act in 1910, but other Australian legislation came after 1914, and the South Australia Act is as recent as 1928.[1] The export trade from Australia has not been so important in relation to total output as it has been in New Zealand; and, of the Australian States, Queensland was most dependent upon an export outlet for surplus production. These facts account largely for the failure of most of the States to legislate before the war. Local consumers may be left to accept the minimum standard of quality which the factories care to provide, but competition in export markets drives up quality standards and leads naturally to the compulsory prescription of grades. The varying quality of Australian butter and the margin between its price and that of New Zealand may be in part ascribed to the lag in the passing of legislation, though the gap is now being rapidly closed. Still, many years are required to educate producers and factory managers and to induce buyers to purchase confidently on grade alone.

Queensland, as an important beef-producing State, was first in the field with a statute to regulate the meat trade. The Live Stock and Meat Export Act, 1895, provided for the inspection and certification of meat intended for export beyond Australia. New Zealand made similar provision by the Slaughtering and Inspection Act, 1900, which sought also to improve the grading of meat. Apart from Queensland, the Australian States did not take any steps to define standards of quality in the export trade, but the Commonwealth made general provision for the grading and inspection of all exports and imports by the Commerce (Trade Descriptions) Act, 1905.[2] In 1903, New Zealand had taken similar general powers under the Products Export Act. Thus, quite early in the century, the need for exercising supervision over the quality of exported goods was fully appreciated and legislated for.

[1] Prior to this date standards for dairy produce were laid down by the Food and Drugs Regulations, 1908.

[2] The Customs Act, 1901–25, contains additional powers.

Of the commodities not regulated by State prescription as to preparation, packing, and grading, wheat and wool are the most important. Although, as will be seen, attempts have been made to lay down official grades for wheat as is done in North America, the grading is left wholly to the organized exchanges.[1] The quality of wool being as yet incapable of exact classification, its grades are perforce left to be determined by those engaged in the several branches of the trade.

It is important to notice the complications which proceed from the existence of a federal constitution in Australia. The individual States retain full power with respect to matters affecting the public health. As they possess also the right to regulate industry within their own borders, they assist and supervise rural industries through their Departments of Agriculture. This power of control, which in the case of certain commodities they exercise in great detail, enables them to regulate the whole process of production and manufacture of such articles as dairy produce.[2] Since the Commonwealth controls external trade, and since that control involves some degree of supervision of the manufacturing process, a considerable amount of overlapping as between State and Federal jurisdictions exists.

Grading Standards. Before discussing in detail the work undertaken by each of these authorities, it is desirable to outline the relations between them. Each State has its own system of official inspection for regulating the grade and quality of products sold within the Commonwealth. In many cases the standards are similar to those prescribed for the export trade, yet each State maintains its own staff of inspectors, except for dried and canned fruits, the grading of which, as well as the supervision of processing, is left by agreement to the Commonwealth officers. On the other hand, the inspection and grading of fresh fruits (e.g. apples, pears, oranges) is undertaken by the States on behalf of the Federal authorities, the State officers being responsible to the Commonwealth Department of Commerce. The conflict of interests

[1] Wheat may, however, be submitted to the State Departments of Agriculture for official certification, especially when shipped to destinations where there is no provision for arbitrations upon quality.

[2] See, e.g. Victoria: Dairy Produce Act, 1931; Tasmania: Dairy Produce Acts, 1930, 1933.

appears to be most acute in the case of dairy produce.[1] It is claimed, with some reason, that if the individual States did not complete their work of instruction and supervision by grading the final product, then their officers would be unable to trace back faults in manufacture and have them corrected. For twelve years after the passing of the Commerce (Trade Descriptions) Act, the examination of dairy produce intended for export was undertaken by State officials, acting under the authority of the Federal Government. When, in 1917, the Commonwealth took direct control and established the Dairy Branch of the Customs Department,[2] New South Wales and Queensland continued to grade butter and cheese submitted for export. In 1921, therefore, the Commonwealth Government issued a Proclamation[3] prohibiting the export of butter (or any container thereof) unless free from grade marks or indications of quality other than those applied by the manufacturer at the time of manufacture or by a customs officer. The State graders continue nevertheless to examine all butters and issue grade notes to the manufacturers as an indication of the efficiency of their methods. Inter-State trade in butter and cheese not previously graded by State officials is prohibited in Queensland; but it frequently happens that local purchasers demand Commonwealth grading, so that the produce is first submitted for export, graded and stored and then withdrawn later for State grading.[4] The Commonwealth grade stamps are cancelled when the State grade mark is affixed, and there is often a discrepancy between the grades assigned by the respective authorities. The risk of deterioration of the produce owing to double thawing and handling is considerable. As the Commonwealth inspectors issue grade notes to manufacturers, it is claimed not only that State grading is superfluous, but also that the examination of produce by an independent authority is a distinct

[1] The Federal authorities took over the inspection and grading of meat for export in the case of Queensland from 1/2/1911 and since then the other States have fallen into line.

[2] Transferred from 1/1/1927 to the Department of Markets, now the Department of Commerce. See Commerce (Trade Descriptions) Act, 1933.

[3] *Commonwealth Gazette*, No. 77, 6/10/1921. Most States make provision (e.g. Victoria: Export Products Act, 1898) for requiring from exporters a certificate that the commodities are free from disease.

[4] The Commonwealth Department of Commerce is endeavouring to eliminate this overlapping, which prevailed in N.S.W. for a time.

advantage. It is unlikely that the States would be willing to abandon the work of grading wholly to the Federal authorities, though such a course would be perfectly reasonable especially as the officials, by whomsoever employed, have as a rule extensive experience on the manufacturing side.[1] The Royal Commission on the Australian Constitution proposed, indeed, that the Commonwealth should be given general legislative powers with respect to marketing in order to eliminate these complications.[2]

Under the Customs Act, 1901–25, and the Commerce (Trade Descriptions) Act, 1905–26, the Commonwealth exercises control over the preparation, manufacture, grading, quality, packing, and labelling of practically all foodstuffs (except wheat and flour) exported. Regulations made from time to time under these statutes set out the requirements in detail. The products to which these prescriptions apply include meat, dairy produce, fruit, honey, maize, plants, seeds, etc. Not only are goods examined at the principal ports, but the process of manufacture prior to export is also under official supervision. Thus Commonwealth veterinary officers are stationed at all places where meat and meat products are packed for export. Meat-export slaughterhouses must be registered and must conform to the standard requirements regarding sanitation, etc. Stock is inspected before and after slaughter and the dressed carcasses are examined in order to ensure that they have been prepared in the manner prescribed. Packing, marking, and the use of registered brands are all provided for, as well as the conditions under which handling and transport shall be effected. The detailed grading of meat is left to the freezing works, only two broad grades, viz. "Passed for Export" (Good average quality) and "Approved for Export" (Fair average quality) being officially laid down.[3] The trade in New Zealand is regulated on similar lines, but no official grades are prescribed.[4] Dairy produce being

[1] The position is discussed in Commonwealth Royal Commission on the Constitution, Minutes of Evidence, Part 3, p. 425 *seq.*

[2] Report, p. 147.

[3] Commerce (Meat Export) Regulations, Commonwealth Statutory Rules, 1923, No. 36.

[4] Regulations under the Slaughtering and Inspection Act, 1908 (*N.Z. Gazette*, 3/4/1930). Regulations for the marking of meat imported into the United Kingdom have been made, but are not yet in force. See, e.g. *N.Z.Gazette*, 20/9/34.

capable of more exact classification, four grades are specified by regulation, both in the Commonwealth and in New Zealand. Each package must be clearly marked with date of manufacture, the number of the churning (in the case of butter) or of the vat (in the case of cheese), and the registered brand. The national brand is affixed to packages containing produce of "choicest" grade or of first grade. The size of the containers is also prescribed, as well as the method of packing.[1] All factories engaging in the export trade must be registered either under the State legislation or with the Controller of Customs[2] in Australia or with the Department of Agriculture in New Zealand. Other Australian exports, such as canned, dried, and fresh fruits, honey, jam, hares, rabbits, etc., are provided for under the Commerce (General Exports) Regulations.[3] The extent of the requirements varies with the nature of the commodity and its importance as an item in the export trade. In New Zealand, similar comprehensive regulations with respect to products of minor importance have not been made, but several articles are separately provided for. Among these is New Zealand hemp, which is required to be packed in bales of specified size and weight, tagged and branded as prescribed, and submitted to the inspection of official graders at appointed stores.[4] Honey, fresh fruit, poultry, eggs, etc., are also subject to official inspection prior to export.

Sect. 5 of the Australian Commerce (Trade Descriptions) Act, 1926, provides that establishments where articles used for human food and drink are manufactured for export shall be constructed, equipped, and operated in such a manner as, in the opinion of the Controller-General of Customs, will admit of the articles being properly processed and graded under hygienic conditions. Accordingly, Federal officials supervise operations at fruit canneries and dried-fruits packing sheds.

The supervision of the dairy industry up to the export point is

[1] Commerce (Export Dairy Produce) Regulations, Commonwealth Statutory Rules, 1930, No. 132. General Regulations under the Dairy Industry Act, 1908 (*N.Z. Gazette*, 18/5/33).

[2] Proclamation 99 under the Customs Act, 1923, which prohibits export in default of registration.

[3] Commonwealth Statutory Rules, 1926, No. 22; 1932, No. 12; 1933, No. 22.

[4] Regulations under the Products Export Act (*N.Z. Gazette*, 9/6/27; 4/10/28).

left to the States and is undertaken in great detail throughout Australasia. As has already been observed, Dairy Industry Acts are in force everywhere. These statutes (or the regulations made under them)[1] prescribe standards of sanitation on the farm, the method of testing milk or cream at the factory, and the apparatus to be employed and the qualifications required of those engaged in this work.[2] Grades of cream are specified and, as a rule, the way in which its value is to be reckoned. In New Zealand, for example, factories are required to preserve a margin of at least ½d. per lb. between the payment for first grade and other cream. The methods of manufacture are in part prescribed in order to eliminate as far as possible faulty product or dishonest practices. The care of milk and cream and of the finished product is subject to regulation, and the grades of butter and cheese correspond to those prescribed by the Commonwealth authorities. It must not be thought that this elaborate and detailed code has been forced upon the industry. In New Zealand and in all the Australian States, the officers of the Departments of Agriculture are in close and continuous contact with rural industry and the regulations represent in general the consensus of opinion as to how it should be conducted. Nevertheless, there appears to be great difficulty in ensuring hygienic treatment of milk on farms since in some areas low standards prevail and competition between factories and the fear of dismissal drives managers to accept and pay full rates for milk of inferior quality. The latest attempt to improve quality in New Zealand is likely to be more effective, since the regulations prescribe differential payments for milk according to grade and restrict the transfer of supplies to another factory during the producing season.[3]

[1] E.g. S. Australian Dairy Industry Act, 1928, General Regulations (*S. Australian Government Gazette*, 8/8/29, p. 333). In Queensland, West Australia, and N.S.W. the Acts purport to deal with the export trade as well.

[2] In some countries, e.g. Germany, Holland, Denmark, Ireland, training in a dairy school is required of all who desire to become creamery managers. In N.Z., dairy factory managers must be registered as such (Dairy Industry Amendment Act, 1933; *N.Z. Gazette*, 22/2/34).

[3] N.Z. Dairy Industry Amendment Act, 1933; *N.Z.Gazette*, 22/2/34. The N.Z. Dairy Board controls the sale of all export butter below first grade to ensure that it is not retailed as standard quality. In Queensland, the Dairy Produce Act Amendment Act, 1932, prohibits factories from endeavouring to attract supplies by paying the cost of transport from the farm.

Regulation of the Distributive Trades. It is true that, in a measure, regulation begets regulation, and it is not surprising, therefore, that trade practices have come more and more under state supervision. The safeguarding of the broad economic interests of producers by prescribing standards which all shall observe and thus ensuring that a commodity shall acquire and maintain a reputation for quality has been followed by measures to protect their direct financial interest in the result of their labours.[1] To some extent the regulation of trade practices has been undertaken with a view to securing increased efficiency, but this is not the main object. The dairying industry, already strictly controlled on its productive side, has become increasingly subject to regulation in matters of finance. The basis upon which payment is to be made to suppliers of milk or cream to co-operative or proprietary factories is everywhere prescribed. In most cases, cream must be valued (apart from its intrinsic quality) upon the butterfat content, though in Queensland and in New South Wales the basis is the yield of commercial butter. The "overrun," i.e. the difference between the weight of butterfat and the weight of butter which it yields, must be calculated in a prescribed manner and certified by audit, so that each supplier will receive his due share of this surplus.[2] In New Zealand, a supplier who is dissatisfied with the statement of the "overrun" issued by a factory may apply for an independent investigation by the Government Audit Department. In Queensland, to take one instance, the method of keeping dairy factory accounts is prescribed and a standard system is imposed wherever the existing one is considered unsatisfactory. The advantages are twofold. In the first place, a sound system of accounting is ensured and, in the second, comparison of the financial results of the various factories is facilitated.

[1] In New Zealand, there is a unique provision for the protection of rural interests against the operations of what is vaguely termed "the Meat Trust." A licence (under the Slaughtering and Inspection Amendment Act, 1918) to operate a meat-export slaughterhouse may be withheld or revoked by the Minister in his absolute discretion, if the licensee is carrying on business in a manner contrary to the public interest. One American firm was refused a licence, but the "trusts" now appear to operate freely and control many meatworks.

[2] See, e.g. Amendment to Regulations under the Dairy Produce Act, 1920: Testing of Cream and Basis of Payment (*Queensland Government Gazette*, 29/11/30).

The regulation of local trade in farm produce is widely undertaken. It is illegal, for example, to pack or expose for sale fruit or vegetables in such a way that the layer on view is not representative of the bulk,[1] and standard sizes for fruit cases are specified.[2] A more novel departure relates to the regulation of the operations of farm produce agents, for which statutory provision has now been made in three States.[3] Agents for the sale of specified produce must be licensed and are forbidden to purchase consignments forwarded to them, or be in any way interested in their purchase, without the written consent of the principal. In Victoria, an agent purchasing or taking over consignments must not charge any commission. No marketable produce may be cast away or destroyed and account sales must be rendered within a prescribed period. In New South Wales, the spreading of false rumours with a view to influencing prices is an offence (difficult, perhaps, to detect), as is also forestalling. The legislation has been most completely implemented in Queensland.[4] The methods of accounting are prescribed by regulation and the consignor has the right to inspect the agent's books and make copies of entries. The rate of commission to be paid to agents is determined by the Commissioner of Prices, who administers the provisions of the Profiteering Prevention Act, 1920, relating to the prices of commodities and services.[5] The price of farm produce must be definitely fixed at the time of purchase or before delivery, whichever is the earlier. Under the New South Wales Farm Produce Agents Act and Dried Fruits Act, power is likewise taken to fix the remuneration of agents.[6] From a general guarantee fund or

[1] See, e.g. W. Australian Agricultural Products Act, 1929; Queensland Fruit and Vegetables Act, 1927.

[2] Victoria: Fruit Act, 1915–17. Tasmania: Apples and Pears Act, 1918. Queensland: Fruit Cases Act, 1912–22. S. Australia: Sale of Fruit Act, 1915–21. The S. Australian fruit-growers at first successfully opposed the operation of the Act.

[3] Victoria: Farm Produce Agents Act, 1920–33. Queensland: Farm Produce Agents Act, 1917–28. N.S.W.: Farm Produce Agents Act, 1927–32.

[4] Regulations under Farm Produce Agents Act, 1917–28 (*Queensland Government Gazette*, 28/6/30).

[5] See Industrial Arbitration Amendment Act, 1925, Sect. 5.

[6] The N.S.W. Act has been unsuccessfully challenged as being obnoxious to Sect. 92 of the Commonwealth Constitution. In *Roughly* v. *N.S.W.*; *Ex parte Beavis*, [1928] 42 C.L.R. 162, it was contended that the Act could not apply to produce coming from other States and sold by agents

through a guarantor of an individual agent payment may be made when an agent fails to comply with the provisions of the Act, or to pay to consignors the proceeds of their consignments. Under the New Zealand Slaughtering and Inspection Amendment Act, 1934, the Minister has power to approve the scale of charges for treating stock at meatworks.

It may be said in conclusion that the steps taken to regulate trade practices and the quality of commodities have in general proved their worth. As part of the process of educating producers they have been invaluable in securing the gains which result from the confidence of traders in the reliability of the products. A public agency alone is capable as a rule of assuming this function since self-regulation is fundamentally weak in that it regards the interest of the trade rather than that of the community at large.

under agreements with principals in those States whereby the terms of sale and the amount of the agent's remuneration were determined. The Act was upheld, but the decision remains doubtful. See also, Report of the Commonwealth Royal Commission on the Constitution, 1929, p. 149.

CHAPTER III

MARKETING CONTROL ORGANIZATIONS

1. The Extent and Nature of Controlled Marketing

The genesis of the control movement has already been considered in some detail. The post-war impulse to large-scale marketing can be clearly traced to war-time experience. During that period producers had become accustomed to stabilized prices and equalized returns; and with these went the idea that governmental intervention could be effective in securing considerable gains. Production and trade were brought to a focus, as it were, and had become in large degree subject to a sort of public control. Patriotism, high prices, and an assured market all contributed to make this control not irksome at the time, and the statistical and other organizational work associated with it presented a detailed picture of the trades concerned such as had never before been available. Not only did mass marketing become, under the circumstances, easily possible, but it appeared to many to offer a simple solution of all the problems of instability. Thus, on the side of technique and organization, the necessary experience for an adventure into peace-time control had been gained, and for the rest it was believed that the crucial difficulty of price maintenance, never in question during the war, would in large measure be overcome by the elimination of competition among sellers. Yet it must not be assumed that the system of bulk purchase alone awakened the new ideas. The outbreak of war, indeed, interrupted a conference of New Zealand dairy-farmers who were exploring the possibility of organizing their industry upon a national scale; and in Australia, the domestic trade in locally produced vine dried fruits had long been largely under the control of growers. The methods of marketing agricultural products in general were becoming more and more the subject of criticism before the war, so that deflation and disorganization merely assisted powerfully to give practical expression to ideas that had long been current.

For the purposes of the present discussion, it is desirable to

explain what is meant by the term "control." It is taken to include not only the actual or attempted regulation of trade by statutory bodies, but also voluntary efforts in that direction. These voluntary movements, it is true, have been aided in large degree through the creation by governments of the conditions pre-requisite to their success (e.g. tariffs), but in some cases they attack more directly and successfully than the statutory bodies the root problem of the maintenance of prices.

The following instances will serve to distinguish the various types of organization. In New Zealand, for example, there is as yet no regulation of the internal trade in the four commodities which are exported under the supervision of the control boards, but regulation of the local trade in wheat and flour was made possible by purely voluntary means through the introduction of a high tariff and the securing of a measure of agreement among producers as to marketing policy.[1] The same may be said of the domestic trade in dairy produce in Australia down to 1934. On the other hand, the regulation of the sale within the Commonwealth of vine dried fruits, and to some extent of canned fruits, is undertaken in association with the export control board concerned. The third type of organization is that developed in Queensland under the Primary Producers' Organization and Marketing Acts, and to a less extent in New South Wales under the Marketing of Primary Products Act. It is concerned for the most part with commodities that have only a local market in the State or in the Commonwealth. Lastly, there are the export control systems of Australasia, which are of the national, plural-selling type, i.e. though regulation is upon a national basis, actual sales are effected through numerous private agents. All these types of organization, whether voluntary or statutory, shade into one another, but their main outlines are determined by the degree of dependence upon State, inter-State, or overseas markets.

It is possible to account to some extent for the various forms that organization took and also for the fact that certain commodities remain outside the ambit of control. The stimulus to production of the early post-war years resulted in the appearance

[1] Statutory powers of control have since been conferred. See Section 3 following.

of export surpluses of unprecedented magnitude. Under the circumstances, it was felt that, whatever the state of glut in markets overseas, something could and should be done to keep up prices at home. This conviction affords some clue to the development of controlled marketing within Australia. Commodities of which the export surplus is not so considerable as the quantity locally consumed are specially adapted to a system of regulation whereby low export prices can be supplemented by differential gains at home; and when these gains can be secured without prejudice to any of the interests concerned (always excepting the consumer), it is not difficult to induce producers, co-operatives, proprietary concerns, and traders to agree to restrictions. For these reasons, the internal control of dairy produce and dried vine fruits has been achieved with comparative ease. The same success has not attended the efforts to organize the internal trade in canned fruits, since canneries are extensively owned by private interests which have developed local connexions. These proprietaries are not prepared to jeopardize their present advantages in order to diminish the proportion of their output which the co-operatives are compelled to export. Generally, it may be said that where a large proportion of the individual producers of a commodity operate upon a considerable scale, or where its internal distribution or its direction into export channels is mainly or wholly in the hands of private interests, then the amount of regulation will be a minimum, or at any rate organization will not be upon a national scale. Wheat and wool may be taken as illustrations of this principle. The survival of the grain merchant, despite the formation of producers' pools, is to be ascribed as much perhaps to the history of the trade as to his efficiency. Until the war, co-operative selling of wheat was unknown, and the private trader, with his extensive experience and powerful connexions, had a long start of the pools and could offer effective resistance when the producer sought to invade his sphere of activity. Yet it must not be forgotten that the merchant has had to yield some ground. In the case of wool, the resistance to any form of controlled marketing is probably as potent on the producers' side as on that of the selling brokers. Operations on the large scale, whether by individual graziers or by land companies,

are common, and in such cases the right of independent action will not readily be surrendered. The selling brokers are even more resolutely opposed to control, whether its aim be simply the maintenance of prices or the regulation of their commercial activities.[1] As the interests concerned with wool auctioning are powerful enough to prevent the appearance of competitors of their own type, it is not surprising that co-operative organizations have not been able to any extent to displace them. In consequence, the amount of regulation in the wool trade is not beyond that in vogue elsewhere,[2] and is designed merely to mitigate some of the worst effects of unrestricted competition and thus advantage both buyer and seller. The Australian meat-export trade falls likewise into this category, as the refrigerating-works are mainly in the hands of private interests and beef production is a large-scale industry.

The establishment of the export control system was actually effected in those industries which contained a majority of relatively small producers and in which manufacture, processing, etc., were mainly in the hands of co-operatives. Here there were no large producing interests to be won over, nor private intermediaries whose services in marketing were indispensable. Yet even in this case, the extent to which the existing marketing agencies have been displaced is very slight.

2. The Aims of the System of Control

Before any examination of the operations of the control systems is undertaken, it is pertinent to set forth the objects which they seek to achieve. The original aim was to maintain or increase prices and for this purpose it was hoped to set some limit to unrestricted competition and substitute a greater or less degree of monopoly.[3] It was believed that competition for markets between

[1] Many producers have financial interests in these firms and are opposed, therefore, to control both as farmers and as investors.

[2] E.g. under the recently formed United States Wool Institute. The Commonwealth Wool Inquiry Committee recommended (November, 1932) that the supply of wool to the market should be regulated by the prohibition of export when necessary.

[3] *Cf.* the somewhat prophetic remarks of the Tasmanian Director of Agriculture: "Why, therefore, do our agriculturists not recognize that the power which has raised the price of wages (*sic*) and the cost of living is capable of raising the raw products of the farm, at any rate as far as the consumption of these products in the Commonwealth is concerned."—Report, 1913–14.

producers or their co-operatives was a powerful influence in depressing prices and that either intermediaries, less given to competition among themselves, secured the benefit of this fall, or that, even when it was passed on to consumers, it was not necessary from the point of view of ensuring the absorption of supplies. Hence collective marketing by some system of pooling and equalized returns was felt to be the major element in the solution of the farmer's problem. This involved some regulation of supplies by means of orderly marketing, but there was no suggestion that state financial aid should be given, as in the United States, in order that stocks might be held off the market. Where such assistance was given, it was done with a view to enabling producers to move their goods into consumption at lower prices. It was not suggested that the control authorities should take any steps to limit production and so, in part at least, solve the problem from the side of supply.

A second group of aims was bound up with the normal operation of existing marketing agencies. Apart altogether from the element of speculation, the efficiency of the middleman was questioned and large economies were anticipated from the checking of wasteful methods of distribution. Hence it was generally accepted that by some measure of control of supplies an opportunity would be incidentally afforded of regulating the work of distributors.

The less spectacular objects of the new organizations were such as would not in general conflict with any of the interests concerned, but they were subordinated to the aims that have just been discussed. The improvement of methods of handling, grading, and preparation, and of the quality of the products, a matter of the very highest importance, was not perhaps given sufficient prominence. It is, in fact, not unfair to suggest that it was something of an after-thought and only assumed its rightful place when it became evident that the more heroic measures would prove ineffective.

Unlike the United States Farm Board, the statutory authorities in Australasia were not expressly charged with the organization of a producer-controlled system of market distribution. This aim was, indeed, proposed in Queensland, but related chiefly to

produce sold on the domestic market. In any case, the co-operative movement was already dominant, and any direct attack upon proprietary interests would have been neither just nor politic. Any extension of producers' co-operation that might result from marketing control would be incidental, rather than consciously procured; and the same may be said of the view that organized distribution would reflect back on the efficiency of the farms. The boards may exhort farmers to improve their methods, but there is generally no machinery for evoking a response.

The broad objective contemplated by the advocates of the new order, namely the placing of farming upon an economic equality with other industries, was accepted as desirable by other than agricultural interests, especially in view of the havoc which disequilibrium threatened to work elsewhere. How far the aims proposed for the system of collective marketing have been translated into policy and what measure of success has attended the policy so far implemented now remain to be noticed.

3. Control in Internal Markets

Internal control, under statutory authority, has been adopted for a wide range of Queensland primary products, for three commodities in New South Wales, and for vine dried fruits and dairy produce throughout the Commonwealth. There exist in addition certain minor and partial attempts at collective control or supervision of marketing. That protection begets protection and that it is difficult to determine the logical limits of this policy is evidenced by the parcelling out of territory for purposes of distribution. State vies with State in Australia in order to preserve the local market for producers within its borders.[1] A further step in the direction of what may be termed decentralized protection has been taken in Queensland, where the sale of two commodities is regulated in one particular district and their movement into and out of the area subjected to supervision. The sugar marketing organization must be distinguished from the rest, as it is based

[1] *Cf.* the late Lord Melchett—*Imperial Economic Unity*: "Within our own Dominions the confederation of the provinces of Canada, the States of Australia, and to some extent the Union of South Africa have produced internally great Free Trade areas." (p. 11). This statement is not strictly accurate as regards Australia.

upon political, as well as economic, considerations and tolerated as part of the White Australia Policy.

Queensland Marketing Organization. Some fourteen commodities,[1] aggregating in value about three-quarters of the total agricultural production, are now marketed in Queensland under one or other of the statutes previously described. It is not proposed to discuss the work of each marketing board in detail, but rather to elucidate the methods they employ.

(i) *Price Regulation.* For every controlled commodity, prices within the State are determined by the boards and in some cases those for inter-State trade as well. The general principle observed is that, without reference to the total production, the local price should be at least as high as those prevailing in other States and, where effective organization to that end exists, even higher. A large degree of monopolistic control is readily achieved in the case of those commodities of which the whole or the major portion of the Commonwealth production is raised in Queensland, since high tariffs, and even embargoes, restrict competition from overseas. A tariff and quota, for example, limit the import of Fiji bananas, and as production in New South Wales is small and Western Australia has only recently commenced planting, the Queensland monopoly is effective. It is not so in the case of maize, though Queensland is the only State which normally has a surplus. For this reason, it was hoped that by organizing the growers[2] it would be possible to raise the price, instead of leaving it below Sydney quotations by as much as 8d. a bushel. Arrowroot and canary seed are in the same category as tropical fruits, and, though they are articles of minor importance, they serve to illustrate the point that success in marketing is easily achieved when there is effective control of supply. Failing that advantage, other expedients have to be resorted to. Thus the aim of the Wheat Board is to secure the consumption within the State of all wheat locally produced. It is held that, with Queensland production normally deficient, an export of wheat in consequence of imports from the Southern States is wasteful, as well as damaging to local interests. The superior milling quality of the southern wheat

[1] See list on next page.
[2] The proposal for a maize pool for the whole State was rejected.

QUEENSLAND

Pools established under the Primary Producers' Organization and Marketing Acts

Commodity	*When Established*	*How Established*
Arrowroot	1923	No opposition
Atherton Maize	1923	No opposition
Barley	1930	81% majority
Broom Millet	1926	No opposition
Butter	1925	75% majority
Canary Seed	1922	75% majority
Cheese[1]	1922	91% majority
Cotton	1926	No opposition
Eggs	1923	87% majority
Honey	1929	No opposition
Peanuts	1924	No opposition
Northern Pigs	1923	No opposition
Strawberries	1929	82% majority
Wheat[2]	1921	97% majority

Note. Fruit Marketing Organization Act: The Committee of Direction of Fruit Marketing was established in 1923 for three years. The Act provided for a ballot on the question of its continuance at the end of the period, if 500 or more growers so requested. Till 1929, no such petition was received. In December, 1929, the continuance of the Committee was confirmed by a majority of 87 per cent. There is also a Plywood and Veneer Pool, constituted in 1934 without opposition.

[1] Originally under the Cheese Pool Act.
[2] Administered under the Wheat Pool Act.

is ignored, and, as its exclusion cannot be effected by agreement with the other States, the Wheat Board entered into an arrangement with the Queensland millers for the disposal of the crop. It is provided that the milling companies shall purchase and grist a given quantity (the crop permitting) each year, with the option of taking a further amount. The price to be paid is based upon the average weekly price in Sydney, plus 3d. per bushel.[1] A similar arrangement is made with brewers, who purchase all barley of malting quality from the Barley Board. By these means, the "local price" policy is rendered effective and considerable disparity results. For the 1928–29 season, the average realization on wheat sold to the millers was 5s. 0·76d. per bushel, as compared with 3s. 10·57d. on that exported.[2] As the whole of the wheat that comes to market is disposed of through the Board, that authority is able automatically to equalize returns for all growers, no matter where their grain is sold. When a commodity is not under the physical control of a board, the process of apportioning shares in the more remunerative local market is more complicated. Queensland butter, for example, has been sold at three different prices for local, inter-State, and export trade. The State price, which is fixed by the Butter Board and is the highest in Australia, is maintained against competition from southern producers by an arrangement entered into with them. For inter-State trade, a lower price is accepted, but it is above the export parity. Cheese, of which the bulk of the Australian output is produced in Queensland, is also sold at an average of 2d. per lb. above the rates ruling in other States. The high local price is due in all cases in part to monopolistic organization, in part to the cost of transporting potentially competitive supplies. The methods employed to screw up prices necessarily vary with the conditions of supply. Thus a commodity may be wholly or mainly produced in Queensland; it may be produced there in excess of State, but not of Commonwealth requirements; its quantity may normally not suffice for State requirements, so that competing supplies come from other States; or, finally, it

[1] Report of Commissioner of Prices under the Profiteering Prevention Act, 1920, for the year 1933–34.

[2] Report of Auditor-General for Queensland, 1929–30, pp. 88, 89. The price to millers then was 1s. per bushel above the Sydney price.

may be such as is produced in excess not only in Queensland, but elsewhere in Australia. The marketing boards must frame their policy accordingly.[1]

The firmness with which the belief in the "local price" doctrine is held may be illustrated from the manner in which it has been applied in order to assist pig breeders in the Atherton district of Queensland. Prior to the advent of controlled marketing in that area, the price for live pigs depended upon current quotations in Brisbane. The Pig Board's aim was to raise the local price to the same level and even increase it above that by the cost of freight on outside supplies. The sale of the Atherton maize crop is likewise controlled. The object of the maize growers is the same as that of the pig producers, namely to escape from the "domination" of Brisbane or Sydney quotations. These district organizations are significant of the tendency to form *ad infinitum* protected groups within protected groups. If protection is good for Australia, surely it is also good for Queensland, and no bad thing for a portion of that State. A Gilbertian situation developed in regard to Atherton maize. Quantities of the grain were "smuggled" across the boundaries of the district in defiance of the Maize Board and special regulations were, therefore, gazetted empowering members of the Board or any persons appointed by it or the police to examine within a radius of 50 miles of the boundary any vehicle believed to be carrying any of the commodity.[2]

The raising of a series of protective barriers has made it necessary to devise methods of equalizing the returns for certain commodities from the various markets.[3] Producers of butter, cheese, and eggs, their co-operatives or any proprietary concerns

[1] The fact that the Queensland Marketing Acts have been held invalid in so far as they purport to limit the freedom of a producer to trade inter-State does not involve in practice the breakdown of the system, since few producers will wish to depart from it. Some peanut growers have, however, been selling direct since the recent decision of the High Court.

[2] See *Queensland Agricultural Journal*, 1/7/30, p. 104. The maximum penalty is £500.

[3] For the equalization method for cheese, see Report of the Auditor-General for Queensland, 1929–30, p. 95. For butter, see *Queensland Government Gazette*, 16/2/29, No. 35. Of the 1929–30 cheese production, 28 per cent was sold in the State, 41·43 per cent elsewhere in Australia, and 30·57 per cent abroad. Of the 1929–30 butter production, 23½ million

dealing in these goods, are free to choose their market, whether State, inter-State, or overseas, but they are all compelled to submit to the respective Commodity Boards particulars of monthly sales. On the basis of the quotations ruling in each market an adjustment is made upon all transactions, so that, as nearly as may be, the net return is the same no matter where the produce was sold. Claims are made upon co-operatives, firms, or persons who have secured returns above the average and payments issued where required to effect equalization. Provision is also made for interim equalization on the basis of the anticipated price for produce sold abroad, minor adjustments being required later. Hence the delay in finalizing accounts may extend to some months and might not be tolerated in the absence of considerable gains. The method avoids all the difficulties of allotting quotas of the several markets to each producing unit. One of the objects of the scheme is to limit the effect of a fall in the London market upon Queensland prices by encouraging the interests concerned to export freely when production is at its peak. The local market is thus kept relatively bare.

(ii) *Regulation of Distributive Agencies.* The Commodity Boards do not as a rule assume physical control of produce, though this is essential in the case of certain crops (e.g. cotton, peanuts, and canary seed) requiring preliminary treatment in a centralized plant owned and operated by the marketing authority. More usually, the producer is directed to deliver his output to an intermediary appointed by the Board. Articles such as honey and broom millet, of which the production is not considerable, are usually handled by a sole agent, who distributes supplies to merchants and manufacturers. In other cases, sales are made through agents approved by the Boards, these agents carrying out a policy laid down for them and supplying returns of all transactions, so that the control organization acts as a clearing-house for market information. Where co-operative or proprietary factories have established their own channels of distribution,

lb. was sold locally, 4·7 million lb. inter-State, and 47·2 million lb. overseas. Only first-grade butter is taken into account for purposes of equalization. The total amount of claims and payments was: in 1928–29, £61,000; in 1929–30, £102,428. For cheese, the amount in 1929–30 was £10,152, when the total sales by the Board were slightly over 5000 tons.

they are appointed agents by the Boards concerned. Generally it may be said that the existing marketing agencies are employed and left to function as freely as the policy of the new regime will permit. It is sometimes found that the control of a part of the supply is effective in maintaining prices. For example, the diversion of part of a fruit crop to the canneries by direction of the statutory authority may enable the distributing agents to secure satisfactory prices for the fresh fruit without any further intervention. The control system does not have any harmful effects upon the efficiency of the agents as they are not shielded from the play of competition and do not, as might perhaps be expected, enjoy sinecures.

(iii) *Fruit Marketing.* Owing to the special position of Queensland as a fruit producing State, a separate marketing organization has been devised for that commodity. The central body is the Committee of Direction of Fruit Marketing, which is elected by the members of the Sectional Group Committees. These Committees each represent a section of the fruit-growing industry, e.g. bananas, pineapples, deciduous fruit, etc. Before the Committee of Direction can assume control of fruit, it must give notice specifying the class it is intended to take over and submit the proposal to a poll of growers, if they so request. Any class of fruit may be removed from the control of the Committee of Direction and placed under a separate Commodity Board. Among the more important concerns of the Committee are the control of surpluses, the supervision and checking of growers' grading, and the regulation of the agencies of distribution. Thus the Committee may arrange for short-period control of fruit when supplies are heaviest, or it may limit the control to a specified area. It is difficult for the Committee to intervene successfully when the agents are operating in other States, e.g. in Sydney and Melbourne, but some degree of supervision is attempted.

It is true to say with respect to fruit, as indeed of many of the other controlled commodities, that the consumer is subsidizing the improvement of grading and quality and that in some directions the cost is unduly heavy.

(iv) *Finance.* At first, the advances to producers by the Boards were made mainly through the trading banks and backed

by State guarantee. Advantage was taken later of the facilities afforded by the Rural Credits Department of the Commonwealth Bank which was set up in 1925 and through which financial accommodation for periods up to one year is granted. However, there is no need for the boards as a rule to rely either on the State guarantee or on the Commonwealth Bank, because their effective control of supplies and consequent good security render their operations attractive to the commercial banks. In some cases the boards have accumulated funds which make them largely independent of credit institutions and in others the selling agencies are able to finance the sales themselves. Where it may be conveniently done, these agencies also provide the funds for the administrative expenses of the boards by deducting a percentage of the receipts from sales. It is thus possible to avoid the less economical procedure of making direct levies upon producers.[1] A conservative policy is pursued in the making of advances. In appropriate cases, the boards undertake hail insurance and they are now empowered (subject to the approval of their constituents) to raise funds by way of levy for any purpose that is in the interests of producers. Long-term credit facilities are not so readily secured. Some commodity boards find it necessary to acquire fixed assets, such as stores and processing plants, and the provision in Queensland for State advances to co-operative associations is not adapted to their needs. It has been suggested that a revolving fund should be established for long term loans, borrowings from the fund being rapidly repaid by charges upon produce. Some arrangement would have to be made, however, for transferring capital interests from outgoing to incoming producers, as is done in most co-operatives.

(v) *Market Information.* The feature of nearly all Australasian control schemes which commends itself to the economic investigator is the provision of more and more adequate statistical and other market information. The policy of the Queensland Commodity Boards is to secure full details of the operation of all sections of each trade, including even the financial transactions

[1] The making of levies upon commodities by Marketing Boards may be invalid as an infringement of the Commonwealth's taxing powers. A State cannot impose excise duties and the marketing levies might be regarded as such.

of agents. By a system of standardized accounts and statistical returns, some working economies are effected and the weakness of any link in the distributive chain can be more readily discovered. By co-operation with other agencies, such as the Department of Agriculture and the Bureau of Agricultural Economics, the Council of Agriculture, which is the central organization for the whole marketing scheme, is able to forecast movements in production and check up in some degree upon the efficiency of the farms. The conditions are also ideal in many respects for the undertaking of direct marketing research, since it is possible to control so many parts of the mechanism of exchange.

(vi) *Some Problems and Comments.* The progressive reduction of the percentage majority[1] required to bring control into effect or to extend the period of its operation has not been prompted by a desire to maintain the system in the face of growing opposition, though it is, of course, now easier to initiate control. While proposals to bring commodities under the Marketing Acts have been from time to time rejected, in no case has the policy of control been reversed when once embarked upon. The boards are, however, always liable to be voted out when the prescribed term expires, if less than half of those entitled to poll favour continuance. This contingency raises a difficulty for those bodies that have acquired fixed assets, and as the law provides for the winding-up of the boards under the Companies Act, considerable loss may ensue upon liquidation and producers may be no longer able to resort to the stores or plants upon which they depend. Accordingly, the Commodity Boards are recommended to form co-operative associations under the Co-operative Associations Act, vest their fixed assets in the association, and thus secure perpetual succession.

It is impossible to ignore the fact that the Commonwealth tariff has been particularly favourable to the new regime in Queensland, as an examination of the relevant items will show.[2] In several cases the products subject to duties or embargoes are peculiar to Queensland and the rest of the Commonwealth can have no direct interest in their exclusion.

[1] From 75 per cent in the earliest Act to 60 per cent at present.
[2] See list on following page.

THE AUSTRALIAN TARIFF

ITEMS OF ASSISTANCE TO QUEENSLAND

Commodity	*British Preferential Tariff*	*General Tariff*
	£ s. d.	£ s. d.
Wheat, per cental	Free	2 0
Barley, per cental	2 0	2 0
Maize, per cental	2 6	3 6
Butter and Cheese, per lb.	6	7
Eggs in shell, per doz.	6	9
Honey, per lb.	1½	2
Broom Millet, per cental	8 0	8 0
Bacon and Hams, per lb.	3	4
Fresh Fruit—		
Bananas, per lb.	1	1
Citrus, per lb.	0½	1
Other, per cental	3 0	6 0
Desiccated Banana, per lb.	6	6
Fruits preserved in liquid—		
¼-pints and under, per doz.	1 3	1 9
½-pints and over ¼-pints, per doz.	2 6	3 6
Pints and over ½-pints, per doz.	5 0	7 0
Quarts and over pints, per doz.	10 0	14 0
Exceeding a quart, per gallon	3 0	4 3
Canary Seed, per cental	6 0	7 6
Peanuts, per lb.	2	4
Arrowroot—		
Packed for household use, per lb.	1½	1½
Other, per lb.	1	1
Cane Sugar, per ton	9 6 8	9 6 8
Raw Cotton—		
Linters, per lb.	1	1½
Other, per lb.	3	3

Apart from possible reactions on consumption and undue stimulus to production, there are other checks upon excessive increases in prices. Rising living costs are ultimately reflected in higher labour costs through the machinery of the basic wage, and the final arbiter of prices is not, after all, the Commodity Board, but the State Commissioner of Prices. Yet these mills grind slowly, however sure they may be in the end, and it may well be that prices have been raised in certain instances to levels that represent merely a successful effort to exploit the community.[1] Owing to the highly artificial nature of the Australian economy, it is not possible to make any estimate of the rightness of any

[1] In his annual reports, the first Director of Marketing pointed to the high prices ruling in Queensland as a sure test of the value and efficiency of the new organizations.

internal prices by comparison with those ruling abroad; and the test of declining consumption, difficult enough to apply even in the absence of disturbing factors, is not conclusive in times of depression. Time alone will show whether the price policy in general has been wise. Meantime, with such effective machinery for conferring benefits upon producer and consumer alike, it is to be hoped that the new regime will emphasize more and more the other aspects of its work.

Australian Internal Trade in Dairy Produce. The Australian Winter Butter Pool instituted in 1917 constituted the first attempt at regulation in the domestic market. The Federal Committee then set up was supplemented the following year by an Advisory Committee in each State, whose main function was to assist in the determination of prices. Before the end of 1918, with the initiation of the Imperial purchase scheme, a system of continuous control of dairy produce was instituted. The Commonwealth Dairy Produce Pool Committee then constituted was charged *inter alia* with the duty of equalizing returns as between local and export markets on a principle similar to that recently adopted. The Committee was concerned, however, not to raise internal prices, but to maintain them below the export contract rates. Still, the experience gained over a period of four years was capable of application to the changed circumstances following the peace. When government buying ceased, the trade in dairy produce became "free" and for a time producers had no incentive to combine. Falling prices, however, stimulated a movement towards some form of internal control, but agreement was so difficult to secure that the results were meagre.[1] In the 1922–23 season, a Queensland-New South Wales butter pool was formed, but operated for one year only. On the initiative of the Queensland Council of Agriculture, a conference at which all the States were represented was held in Melbourne on 19th April, 1924. The meeting endorsed the principle of control, both internal and external, and asked the Commonwealth Government to create a statutory authority. However, the government intimated that,

[1] For the efforts that were made, see e.g. the Report of a Committee of Investigation appointed by the Council of Agriculture in Queensland entitled: "History of Queensland Dairying, together with Investigation of its Problems of Production and Marketing" (Brisbane, 1924).

owing to constitutional difficulties, it was opposed to the regulation of inter-State trade and to the fixing of prices, though it was willing to set up an Export Control Board. The following year, measures for the voluntary regulation of the internal market were at last agreed upon and the system of levies and bounties whereby the home price was maintained above the export level was adopted. The "Paterson Scheme," as it was called,[1] came into force on 1st January, 1926.[2] Almost all the butter manufacturers in the Commonwealth (excepting Western Australia) agreed to pay a levy as prescribed by the Federal Committee on every pound of butter produced.[3] In return, they were to receive a bonus on all butter exported, so as to make the net realization from all markets approximately equal. The internal price was thus to be raised by the amount of the export bonus and maintained to this extent above the London parity, allowance being made for movements in the exchange rates. For the first two and a half years, the scheme was not watertight, as the duty on New Zealand butter was only 2d. per lb. However, this was raised to 6d. in June, 1928, on the expiry of the trade agreement and competition from outside is now effectively prevented, so long as Australian producers keep their internal prices within the bounds set by the tariff. The scheme depended for its success upon the fact that the greater part of the butter produced was consumed within the Commonwealth. If the proportion exported increased much, the average net return could be maintained only by raising the levy so far as to make internal prices prohibitive. On the other hand, if it were necessary to reduce the bounty while leaving the levy unchanged, internal prices would fall and the differential gains tend to disappear. This method of subsidy could not be applied, for example, to the New Zealand trade in which the proportion of export to home consumption may rise as high as seven to one.[4] The Australian Stabilization Committee

[1] After the Hon. T. Paterson, one of the originators of the scheme and later Federal Minister of Markets.

[2] Two States did not participate until later in the year.

[3] By 1928, about 98 per cent of the butter factories were in the scheme.

[4] Even so, a proposal has been put forward for differential prices in New Zealand (*N.Z. Dairyman*, December, 1930). The reconstituted N.Z. Dairy Board, in conjunction with the Commission of Agriculture, appears to be considering the matter once more.

was, in fact, compelled to vary its rate of bonus in accordance with fluctuations in production, and in one year it even refunded part of the levy as production had heavily declined. Good seasons have probably exercised more influence upon output than the stimulus of high internal prices. Marketing policy, too, has played an important part in determining the degree of resistance that local prices can offer to movements in London quotations. Thus, when export takes place freely and stocks do not accumulate in Australia, prices there need not follow a downward movement in London, especially when this occurs during the Australian winter.[1] On the other hand, prices in Australia may be influenced to some extent by those fixed by the Export Board for f.o.b. contracts, the final London realizations on which are not known until a month or two later. Partial drought in a State may cause a rise in price even in the face of surplus production elsewhere in the Commonwealth. Hence, with so many factors to be accounted for, it is not possible to expect any close and continuous connexion between internal and overseas prices, though there must be some measure of correspondence in the long run. A reference to the diagram of price changes (see following page) will show that the Australian market was compelled to follow London during the peak of the production season and that it was largely independent during the period when export is a minimum.[2]

The central body which administered the Paterson Scheme was the Australian Stabilization Committee, which consisted of producer members of the Dairy Produce Export Control Board. This Committee determined the rate of the levy and of the bonus on butter, the levies being collected by the State Stabilization Committees. The stabilization organization was not set up, however, for the purpose of regulating the internal trade. As competitive selling within and between the States continued and many factories appeared to be willing to accept something less than the full advantage of the tariff and the bonus scheme in order to quit their output locally, it became imperative to devise some means

[1] Yet the Australian Dairy Board decided to withhold shipments of butter during part of the 1932–33 season, the year, significantly, when the Paterson Scheme broke down.

[2] The high prices in Queensland are due mainly to the existence of a State Butter Board which effectively controlled supplies.

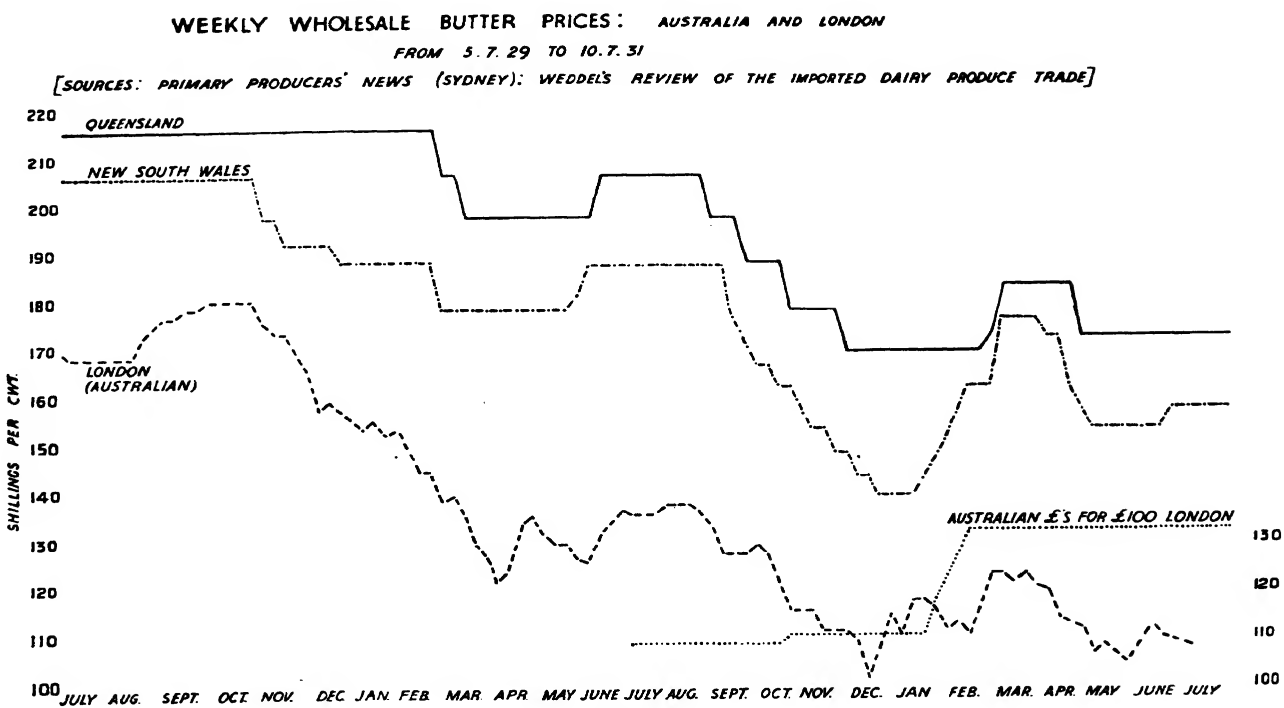
WEEKLY WHOLESALE BUTTER PRICES: AUSTRALIA AND LONDON
FROM 5.7.29 TO 10.7.31
[SOURCES: PRIMARY PRODUCERS' NEWS (SYDNEY): WEDDEL'S REVIEW OF THE IMPORTED DAIRY PRODUCE TRADE]
QUEENSLAND
NEW SOUTH WALES
LONDON (AUSTRALIAN)
AUSTRALIAN £'S FOR £100 LONDON
SHILLINGS PER CWT.
220
210
200
190
180
170
160
150
140
130
120
110
100
130
120
110
100
JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE JULY

FIG. 1

of overcoming this difficulty. Accordingly, in 1929, the Australian Dairy Produce Inter-State Committee was set up, with sectional committees in each State. The State Committees[1] fixed local prices, determined shortages (if any), and issued permits to firms to import from other States when necessary. They were not concerned to interfere with the ordinary channels of trade, except in so far as it might be necessary in order to maintain prices. Prices for inter-State trade were agreed upon between the State Committees, subject to the arbitration of the Federal Committee. Shipments on consignment to Western Australia were not permitted and prices for that market were based upon the lowest eastern wholesale rates.

Many difficulties were encountered in the administration of these two complementary control systems. Apart from the threat to the Paterson Scheme from the side of production and the fact that a few factories resolutely refused to participate, with consequent high profits to themselves, there was and is a powerful incentive to make butter on the farms, as it cannot be levied upon.[2] Some complaint was made, too, that Western Australian producers were reaping the benefit of the bonus system without contributing to it, though it was conveniently forgotten that the Western Australian consumer was paying dear for eastern butter. Again, it is true that States, such as Queensland, with a heavy export quota, gain more than those which consume the bulk of their production at home. Yet the troubles of the Stabilization Committee were trifling compared with those of the State Dairy Produce Committees. Some factories failed to observe the official quotations or, even where they had signed the agreement, made concessions by way of discount and otherwise. The border trade was also difficult to control, especially if a much higher price was ruling perhaps a few miles away.

This scheme of voluntary subsidy was replaced by a system of statutory control, in May, 1934. By the Dairy Produce Act, 1933, the Commonwealth paved the way for the regulation of inter-

[1] The State Committees were composed of representatives of producers' organizations, co-operative distributing associations, and private traders.

[2] The Australian Stabilization Committee regarded butter sold off farms as subject to levy, but it appeared to have no illusions as to the impossibility of collecting anything.

State trade. On the second reading of the Bill, the Minister of Commerce said that it would not come into operation until the State governments took steps to protect consumers against an unreasonable increase in local prices above London parity. The effect of the Act and of the Regulations made thereunder[1] is to compel the export overseas of any butter and cheese not required for home consumption. This means, of course, not required for consumption at the higher Australian price, because the quantity consumed per head per annum is about 30 lb., as compared with a New Zealand consumption of about 37 lb. As in the case of the control of the domestic trade in dried fruits, the regulations provide that a licence to trade inter-State will be issued to a dairy factory only on the condition that the licensee complies with the export quotas fixed by the Minister of Commerce. There are in each State "prescribed authorities" (generally the State Dairy Produce Board) who administer the details of the scheme. It has not proved easy to secure the ready co-operation of all the States. Queensland, with an export of 76 per cent of its butter output (over 40,000 tons),[2] stands to gain most from the regime. While New South Wales has expressed no objection to this, other States, and especially South Australia, were not so amenable. South Australia has an important butter trade across the border to Broken Hill in Victoria which it desired to safeguard. Again, the new scheme requires States to export up to the amount of the quota fixed for Australia as a whole (there would else be legal difficulties about giving preference to one State over another) and hence import into some States from others becomes necessary at certain times.[3] Tasmania and South Australia have, therefore, been given the right to determine the local price of imported butter. This might some day be shown to conflict with constitutional law, if the local price of imported butter in Tasmania and South Australia should ever be fixed at less than the price in the exporting States. Nor does the scheme appear to possess much value for Western Australia, whose annual export surplus is small.

[1] Commonwealth Statutory Rules, No. 50, No. 131, 1934. Any consignment exceeding 10 lb. in weight comes under the Regulations.

[2] Report of Queensland Department of Agriculture, 1933–34.

[3] There may be appreciable loss in consequence from transport and handling charges.

The question of fixing and maintaining local prices and equalizing prices as between home and export markets is, in fact, still the crucial difficulty of the butter control, for a reasonable degree of uniformity is necessary if the subsidy is to be fairly shared out. This is a matter with which the Commonwealth is not competent to deal, as it cannot regulate intra-State trade, and the States themselves are evidently not prepared to legislate uniformly so as to establish a statutory system of price control. It has been found necessary, therefore, to constitute a body for this purpose. On 20th March, 1934, the Commonwealth Dairy Produce Equalization Committee Ltd. was incorporated under the Companies Act of New South Wales. The chief objects of the company are: (i) to secure equalization of prices; (ii) to fix a basic price at which all butter sold at home or abroad shall be taken into account for purposes of equalization; (iii) to prescribe the amounts to be charged in the process of equalization against such items as transport and handling, discounts and allowances. The company has a capital of thirty-six £1 shares, of which eight each are available to Queensland, New South Wales, and Victoria, and four each to the other States. The shares are held by members of the State Dairy Boards, which furnish the directors. The company has no authority over any dairy concern except those which voluntarily sign its agreement. The agreement does not become effective until it has been signed by companies representing 50 per cent of the total quantity of dairy produce manufactured in the Commonwealth during the year ending 30th June, 1933. The agreement operates for twelve months, after which six months' notice of termination may be given. Under it the company has power (i) to levy on dairy produce for administrative expenses and for the establishment of a Commonwealth equalization fund, as under the Paterson scheme; (ii) to make or require payments to or from the dairy companies in order to effect equalization; (iii) to allot quotas of the local market to each company, which agrees to pay a penalty for overselling in that market and which is entitled to compensation if it does not reach its quota. In determining the average price upon which to base the equalization as between home and export, the company takes the price fixed by it for the domestic trade and, for Great Britain, the average of the prices

ruling in London for Australian shipments between the 7th and 14th day following the arrival of each shipment.[1]

Despite the elaborate arrangements that have been made, the dairy produce scheme is not by any means watertight. Some day, when economic lunacy is a less prevalent disease, the Australian consumer may rebel against the "forcing off the local market" of much that he might himself enjoy. Bickering among the States is not likely to be completely and permanently overcome and, as has been observed, the legal basis of the whole scheme is not beyond question. In the face of a continuously expanding output, the home price cannot be maintained at a level that will furnish an adequate subsidy for the export surplus. Again, breaches of agreement with the Equalization Committee Ltd. may occur and it is at least possible that the courts would regard these agreements as invalid as being in unreasonable restraint of trade, though that doctrine has come to possess great elasticity during the past decade. The more effective the monopoly becomes, the greater the opposition that is likely to develop and success will merely breed failure. The production of butter substitutes is rigidly regulated[2] but the relaxing of that control is an instrument always ready to hand. The wisest policy for those who direct the dairy produce scheme would appear to be to strive to narrow the margin between home and export prices so that it may ultimately disappear.[3]

The Marketing of Australian Sugar. In pursuance of its policy of withdrawing from the field of trade, the Commonwealth Government abandoned in 1922 the control of the sugar industry

[1] The adjusted price of butter for June, 1934, was 104s. 11d. per cwt., based on a local price of 140s. and a London price of 66s. The local price in N. Zealand (including exchange) was then 87s. 6d., and the local price in Denmark equivalent to 159s.

[2] Legislation that was originally designed to protect the consumer is now being used to bolster up the dairy-farmers' monopoly; e.g. the N.S.W. Dairy Industry Amendment Act, 1932, provides, in effect, that butter and margarine shall not be manufactured within 100 yards of each other.

[3] The estimated cost of the butter subsidy for all States (excluding W. Australia) was, for 1932–33, 8s. 11d. per head of the population. (Report of Committee of Inquiry on effect of controlling butter, etc.—S. Australian Parliamentary Papers, 1934.) Total taxation (Commonwealth and State) was in that year £14 3s. 1d. per head. For the first year of the new butter scheme, the gain to the four eastern States is stated at £4 millions, a gain of £1,882,000 over the Paterson Scheme.

THE AUSTRALIAN BUTTER TRADE

I. Particulars Relating to the Paterson Bonus Scheme

(*a*) *Levies and Bonuses* (*aggregate*)—

1928 . .	Levies	£1,709,276	1931–32 .	Levies	£2,625,076
	Bonuses	£1,689,546		Bonuses	£2,219,067
1929 . .	Levies	£2,115,582	1932–33 .	Levies	£2,794,194
	Bonuses	£2,119,193		Bonuses	£2,767,040
1930–31 .	Levies	£3,400,967	1933–34 .	Levies	£2,585,986
(18 months)	Bonuses	£3,646,944	(10 months)	Bonuses	£2,730,392

(*b*) *Rates of Levy and Bonuses per Pound*—

Date	Levy	Bonus	Date	Levy	Bonus
1/1/26 to 11/12/27	1½d.	3d.	1/1/31 to 31/3/31	1¾d.	3½d.
12/12/27 to 31/12/27	1½d.	4d.	1/4/31 to 11/4/31	1¾d.	3d.
1/1/28 to 30/9/28	1½d.	3d.	12/4/31 to 2/4/32	1¾d.	2½d.
1/10/28 to 31/12/28	1¾d.	3d.	3/4/32 to 1/5/34	1¾d.	3d.
1/1/29 to 31/12/30	1¾d.	4½d.			

II. Internal and External Trade

(*a*) *Home Consumption of Butter per Head* (*lb.*)—

1927–28: 29·7. 1928–29: 29·8 1929–30: 29·84 1930–31: 28·91
1931–32: 28·96 1932–33: 29·27 1933–34: 31·05

(*b*) *Production and Exports* (*Tons*)—

Year	Production	Exports	Percentage Exported
1925–26 . .	122,015	43,258	35·45
1926–27 . .	112,740	34,271	30·39
1927–28 . .	125,016	44,270	35·41
1928–29 . .	129,412	45,733	35·33
1929–30 . .	134,139	48,065	35·83
1930–31 . .	156,431	72,848	46·56
1931–32 . .	174,335	90,018	51·63
1932–33 . .	187,354	101,040	53·93
1933–34 . .	201,284	109,062	54·18

III. Comparative Returns

	Australia	New Zealand	Argentine
	s. d.	*s. d.*	*s. d.*
London Price per cwt..	80 0	80 0	80 0
Exchange Premium .	20 0	20 0	26 8[1]
Export Bounty . .	28 0	—	—
Gross Return . .	128 0	100 0	106 8
Deduct—			
C.i.f. Charges . .	13 5	12 6	11 8
Levy . . .	16 4	—	—
Duty in U.K. . .	—	—	15 0
Net Return per cwt. .	98 3	87 6	80 0

[1] Argentine exchange taken at 36 pence to 1 dollar.

which it had shared with Queensland since 1915. The effect of its intervention during this period was to prevent internal prices from rising to the level ruling in the world market. The new arrangement is still based upon an agreement between the governments, but the Commonwealth is no longer responsible for administration or for losses. It aims at keeping prices above the world level, so that the sugar grower has been compensated for his earlier sacrifices. The Queensland Government continues to acquire the crop each season by Proclamation under the Sugar Acquisition Act, 1915. It appointed a Sugar Board in July, 1923, to undertake the administrative work. The Board is responsible for the delivery of raw sugar from the mills to the refineries and for its preparation, distribution, and sale. It also deals with the sugar produced in New South Wales,[1] where there are only two crushing mills, and with the export of surpluses. The price payable to the Queensland grower is regulated by the Sugar Cane Prices Board in accordance with the rates fixed by the inter-government agreement for the raw and refined product. The refining is in the hands of two companies, one of which operates plants throughout Australasia. These concerns act as the agents of the Sugar Board under a system of fixed allowances for the financing of sales and the distribution of the commodity to merchants.

The tendency for benefits to flow off to intermediaries when systems of control are instituted, ostensibly for the advantage of producers, may be well illustrated at this point. The shares of the large sugar-refining company rose from £46 on 22nd December, 1932, to £63 10s. a year later, and stood at £42 10s. on 20th December, 1934, after the capital had been doubled by a revaluation of the assets and the dividend had been halved. It seems fair to suggest that, in the case of concerns which are secured by the operation of control schemes, there should be some statutory limitation upon the amount they distribute to shareholders out of their earnings and that the balance should be paid to the state.

[1] A small amount of beet sugar is also produced at Maffra, in Victoria, but it is not in the scheme. Production rose sharply in 1931 to over 5000 tons, as compared with 3000 to 3500 in previous years. The proposed State-aided factory at Warrnambool would aggravate the surplus sugar problem, but it is perhaps felt that Victoria should share in the good things as well as Queensland.

The latest agreement between the Commonwealth and Queensland was entered into in June, 1931.[1] The embargo on the import of sugar grown by black labour is extended until September, 1936, and the tariff of £9 6s. 8d. per ton continues. The maintenance of this protection is contingent upon the observance of certain conditions respecting internal prices, losses on export, etc. It is provided that uniform wholesale and retail prices shall prevail throughout the Commonwealth, the industry bearing the cost of transport to Western Australia and Tasmania. These prices were renewed for three years, but might be altered in accordance with variations in the volume of production and in wage rates and labour conditions in the industry, etc. Manufacturers for home consumption receive a rebate of about 16 per cent and sugar is supplied to manufacturers for export at a price in bond equal to world parity. This price is determined by an Export Sugar Committee, which is composed of one representative each of the Commonwealth Government, the Queensland Sugar Board, and the export manufacturers. There is also a Fruit Industry Sugar Concession Committee to arrange rebates on sugar used in canning and jam-making. Losses on the sale of surplus sugar abroad are borne by the industry.

The dangerous consequences of high internal prices have in part been realized. Production has mounted steadily in Queensland and, with the increase in the export quota, the average net return per ton has declined. The retail price was for long about double what it was elsewhere[2] and it is questionable whether unified control has succeeded in effecting any economies in distribution. It is argued that cane growers are not deriving any great monetary advantage,[3] yet the increase in acreage and output since 1920 shows that the industry offers some attractions, despite the inconvenience of working under tropical conditions. The

[1] Commonwealth Sugar Agreement Act, 1932. The retail price was reduced to 4d. per lb. from 1/1/33.

[2] Average wholesale prices ruling in 1930 were: Australia, £37 6s. 8d. per ton; England, £19; N. Zealand, £17 6s. 6d. (Reports of Commonwealth Sugar Inquiry Committee, 1931, Minority Report, p. 105.)

[3] See, e.g. an estimate in *Queensland Journal of Agriculture*, October, 1930, p. 382, where it is stated that only 13 per cent of the growers pay income tax. 2 per cent of them had incomes between £1000 and £2000; 4·2 per cent had between £500 and £1000; and 6·6 per cent from £250 to £500. See also Majority Report of Sugar Inquiry Committee.

AUSTRALIAN SUGAR INDUSTRY

I. Sugar Prices, 1920–36

Date	Price to Grower and Miller, Raw Sugar (per ton)	Wholesale Price (per ton)	Retail Price (per lb.)
	£ s. d.	£ s. d.	d.
1/7/20 to 31/10/22 .	30 6 8	49 0 0	6
1/11/22 to 30/6/23 .	30 6 8	42 0 0	5
1/7/23 to 21/10/23 .	27 0 0	42 0 0	5
22/10/23 to 31/8/25 .	26 0 0	37 11 4	4½
1/9/25 to 31/8/31 .	26 10 0(a)	37 6 8	4½
1/9/31 to 31/8/36 .	22 0 0	37 6 8(b)	4½(c)

(a) Estimated. (b) Reduced to £33 4s. 0d. (c) Reduced to 4d., 1/1/33.

II. Sugar Production, Export, Consumption, and Realizations

Season	Production (Tons)	Export (Tons)	Percentage Consumed in Australia	Net Value per Ton Exported	Average Price for Whole Crop per Ton
				£ s. d.	£ s. d.
1924–25	435,818	82,747	81	(d)	(d)
1925–26	517,970	208,805	59	11 5 9	19 10 7
1926–27	413,876	66,523	84	14 18 10	24 10 10
1927–28	509,094	154,654	69	12 2 6	22 0 4
1928–29	537,574	199,497	63	10 10 0	20 17 11
1929–30	538,090	181,710	66	9 17 0	20 8 2
1930–31	535,624	199,161	63	8 5 0	19 12 11
1931–32	603,735	278,920	54	9 7 0	18 2 11
1932–33	531,348	187,050	65	8 0 6	16 6 3
1933–34	666,145	308,000	54	7 11 3	15 13 9

(d) Not available.

III. Queensland Sugar Industry: Acreage, Output, Number of Growers, etc.

Year	Acreage	Sugar Output (Tons)	No. of(e) Growers	Average Holding (Acres)(f)	Tons of Cane to 1 Ton Sugar
1920 .	162,619	167,401	3,930	35	8·00
1925 .	269,509	485,585	6,730	35	7·55
1926 .	266,519	389,272	6,608	36	7·52
1927 .	274,836	485,745	6,587	38	7·32
1928 .	283,476	520,620	6,502	40	7·18
1929 .	291,660	518,596	6,247	40	6·91
1930 .	296,070	516,783	6,685	41	6·83
1931 .	309,818	581,276	6,851	42	6·94
1932 .	291,136	514,085	7,231	40	6·90
1933 .	311,910	638,734	7,386	42	7·31

(e) Growers of 5 acres or more. (f) All growers.

Source: *Commonwealth Year Book*; Queensland Statistics.

future is obscure, but in this, as in other Australian primary industries, the scaling-down of internal prices is a problem that will have to be faced. It is true that some of the incentive to increased output is removed by making other branches of farming in Queensland profitable, but the rural economy is by this procedure merely involved in a vicious circle.[1]

The Domestic Trade in Vine Dried Fruits. Passing reference has already been made to the Australian Dried Fruits Association and to the effective supervision of the internal trade which it had established before the war. This body, which was formed in 1907, is not a trading concern, but determines prices and regulates the conduct of sales by agents. It is not highly centralized, but has local branches in important centres of production, and includes affiliated concerns quite heterogeneous in nature, e.g. growers, co-operative and proprietary packing-sheds, co-operative selling organizations, selling agents, and wholesale dealers. The Association is financed by a small levy on growers, over 90 per cent of whom are represented in it, there being only about 5 per cent of non-Association fruit. The vicissitudes which the trade had undergone in the 'nineties, when surplus production and price-cutting appeared in Victoria, were repeated in the post-war years, owing to increased output and falling prices. Under the disturbed conditions, growers, in many cases, did not observe the quotas fixed for export, and dealers were often able to evade the Association's restrictions. In 1924, the industry had become so depressed that the Commonwealth Government came to its assistance.

By the Dried Fruits Advances Act, 1924, provision was made for financing the production of the 1925 crop. In that year, the Dried Fruits Association was reconstituted, but with the setting up of the State Dried Fruits Boards and of the Export Control Board, it was thought that no useful sphere of work remained to it. However, its experience continues to be of the utmost value to these new authorities and it still plays a large part in regulating sales and prices within the Commonwealth through the

[1] For statistics relating to the sugar industry, see page 124. An attempt has been made to discourage surplus production by allotting quotas on the basis of a peak year to the various crushing mills and paying for any excess at a lower rate.

information it is able to supply.[1] It also assists them in maintaining the quality of the pack and advises growers on problems connected with the industry, as well as safeguarding their interests in other directions.

The legislative provision for the dried fruits trade furnished the model for the control of the dairy produce trade. The regulations under the Commonwealth Dried Fruits Act, 1928–33,[2] provide for the licensing of traders inter-State and the fixing of quotas for home and export sales. There is a Dried Fruits Board or other "prescribed authority" in each State to attend to administrative details and prosecute in cases of unlawful trading. The Commonwealth Department of Commerce also fixes each year, in consultation with the State Boards and representative packers, the standards of the various grades of fruit. The high proportion of exports[3] might appear to suggest that the benefits of internal regulation are too small, when averaged over the whole crop, to be worth while. The control of the trade is, however, a safeguard against its demoralization rather than a means of increasing the average return.

Minor Instances of Marketing Control. The New South Wales Marketing of Primary Products Act, which came into operation on 6th July, 1928, has not been widely implemented. Proposals to bring wheat, butter, millet, and certain fruits under the Act have been rejected, but Commodity Boards were set up for rice, eggs, honey, and wine grapes. The Honey Board was dissolved in 1932 and the Egg Marketing Board does not appear to have been very successful, especially in competing with supplies from other States.

The feeling among producers that the selling agents are not fully alive to the interests of those who employ them has led to the appointment by the Tasmanian Potato Marketing Board,

[1] It is not uncommon to find a prior-existing organization co-operating with a statutory authority; e.g. the New Zealand Fruit-growers' Federation and the Dairy Association acted for a time as shipping agents for the Fruit and Dairy Boards respectively.

[2] Commonwealth Statutory Rules, No. 40, No. 164, 1934. By the Commonwealth Dried Fruits Act, 1933, prunes, apricots, peaches, pears, and nectarines are now included.

[3] The export quotas determined on 9/1/31 were: Currants, 80 per cent; Sultanas, 86·5 per cent; Lexias, 60 per cent.

which regulates the trade to the mainland, of inspectors who supervise sales in Sydney. Provision has been made for a Citrus Marketing Board in South Australia, where the trade in these fruits is expanding. In Sydney and Melbourne (as in Auckland) there are Milk Boards to regulate metropolitan supplies. The local, and to some extent the export, trade in meat is controlled by Boards in Brisbane, Sydney, Adelaide, and Tasmania.[1] In Adelaide, the Board has the sole right to slaughter for export. The Tasmanian Board acts merely in an advisory capacity, its aim being to stimulate the export of mutton.

The New Zealand Wheat Trade. Regulation of the internal market is almost unknown in New Zealand. Provision is made by the Fruit Control Act, 1924, for the control of the domestic trade in each provincial district. A proposal to implement this part of the Act was rejected and the only commodity in regard to which trading is not free is wheat. Down to 1923, the trade in wheat and flour was under government control and some measure of regulation continued until 1926, mainly at the request of growers who, in 1923, had formed a board of their representatives in order to negotiate with millers regarding prices. In 1927, sliding-scale duties on wheat and flour, designed to secure a high local price, were imposed and the growers have since sought to make the tariff fully effective by collective marketing. For this purpose, they formed in 1928 the New Zealand Wheat Growers' Co-operative Association Ltd., which acted as a selling agent and handled a large proportion of the crop.[2] At the end of 1931, the Wheat Marketing Agency Company Ltd. was formed, the share capital being equally divided between the Wheat Growers' Association and the large milling concerns. The new organization eliminated competition between millers and growers which had threatened to reduce the local price and arranged for the dumping of the export surplus abroad at less than half that price. This departure is one of the ironies of history because about seven

[1] See Reports of Queensland Meat Industry Board (Queensland Parliamentary Papers); N.S.W. Meat Industry Amendment Act, 1932; S. Australian Metropolitan and Export Abattoirs Act, 1933; Tasmanian Meat Industry Act, 1933.

[2] On the wheat situation in N.Z., see Report of the Wheat Industry Committee, 1929.

years before the leading milling interests were proceeded against, largely at the instance of the wheat-growers, on the ground that they had formed a buying "ring."[1] Statutory control came with the heavy production of the 1932–33 season. A Wheat Purchase Board was constituted as the sole authority through which wheat of milling quality can be sold.[2] The Board now consists of ten members appointed by the Minister, five representing the wheat-growers, and four the flour-millers, the other member acting as chairman.[3] It is perhaps worth noting that the statutory authority under which the Board is set up is the Board of Trade Act, 1919, the original purpose of which was to secure the public against monopolistic exploitation. As flour is excluded equally with wheat, the quantity of grain gristed in New Zealand has tended to rise. This gave fuller, and in some cases very profitable,[4] employment to the mills and encouraged the operation of additional ones, although about fifty were already in existence. The threat to milling profits represented by this departure has made the growers fear that the milling interests, which are powerfully organized, will beat down the price of wheat by buying from hand to mouth. Accordingly, a fourth body, the United Wheat Growers of New Zealand, a growers' company, has come into being. Its object appears to be to ensure that millers will take up the crop sufficiently rapidly to avoid any adverse effect upon prices. The principal millers' organization acts as agent for the sale and distribution of flour and wheat offals and handles about 70 per cent of the output.[5] Quotas are determined for each mill so as to eliminate price-cutting and almost the whole trade is done at the prices fixed. The distributing company receives about 10s. per ton for its services, which seems unduly high.

The elaborate organization just described is rendered necessary by the fact that the wheat industry is embarrassed by surplus production and is in a similar position in that respect to the

[1] See p. 55, *ante*.
[2] Board of Trade (Wheat) Regulations, 1933 (*N.Z. Gazette*, 6/1/33).
[3] Board of Trade (Wheat) Regulations, 1934–35 (*N.Z. Gazette*, 10/12/34).
[4] One concern, capitalized at £300,000, increased its reserves from £28,000 to £68,000 between 1934 and 1935 and paid 7 per cent. Another large concern paid 10 per cent.
[5] Report on Flour Milling Industry in N.Z. (N.Z. Parliamentary Papers H 44 B, 1931).

Australian butter industry. A considerable amount of "political arithmetic," including some by academic economists, has been forthcoming with the object of showing that dear wheat and dear bread confer indirect benefits upon the community at large. The economic position of the representative wheat-grower, a mythical being of no more substance than the Marshallian representative firm, has been analysed in order to show what the grower "needs" to secure for his grain, the price being inflated as a result of the high value placed upon land. Similarly, the fact that some flour mills return less than normal profits is quoted to show that intermediaries do not gain unduly. But many of the mills are redundant and make little or no profit for that very reason.

The New Zealand Dairy Board has now under consideration the question of eliminating internal competition in the sale of dairy produce.[1] But the price-cutting objected to is no more than what was once regarded as the normal economic order. A New Zealand Poultry Board has recently come into being, and it is not unlikely that tobacco growers, threatened by overproduction, will establish an organization to regulate their industry.

4. Control in Export Markets

At this distance it appears unfortunate that the wartime organization of the export trades was abandoned and then followed, after a short interregnum, by a new but not dissimilar form of control. New Zealand meat, for example, was "free" for only two years, and Australasian dairy produce for not more than five, and in some respects for only three. During the disturbed years, there was no regulation when it was most required and the worst was over when the export control legislation appeared. It is true that prices did not regain their highest levels and, to an agricultural community that had been accustomed for twenty years to movements in its favour, this fact was no doubt reason enough for the steps that were taken after 1921.

[1] By the Agriculture (Emergency Powers) Act, 1934, the Board "may exercise control over dairy produce intended for local consumption."

(i) **Price Regulation by Produce Boards.** In view of the controversy that has raged regarding the question of price-fixing, it must be said at once, after a careful examination of the evidence, that in no case has any produce board sought to impose arbitrary quotations in any market. Since the institution of these bodies, various methods, ranging from complete regulation of sales down to more or less ineffective consultations with traders, have been employed in order to secure some control over market movements.

(*a*) *New Zealand Dairy Produce.* The policy pursued by the New Zealand Dairy Board during the 1926–27 season is the most important instance of attempted price regulation. Under its statutory powers, the Board assumed absolute control over all produce graded from 1st September, 1926. An initial weakness was the necessity for giving some months' notice of this intention, for during that time an opportunity was afforded to certain interests to adjust their trading policy in directions calculated to prejudice the Board's operations. Thus, when price-fixing began on 4th November, abnormal storage stocks, estimated at from 30,000 to 35,000 tons, were available. This old season's butter, the accumulation of which, it is true, was partly due to the favourable European weather and to the British general strike, was sold against the Board's supplies down to the middle of February, 1927. It had undoubtedly been anticipated that the Board would hold dairy produce firmly and thus leave opportunities for profit to operators who were willing to accept a somewhat lower price in the good market that had been created for them. It seems also clear that stocks of New Zealand butter in the hands of the trade were allowed to run down and that the fall in the deliveries of controlled produce was not due merely to buyers turning to other sources of supply. The opposition of all sections of the trade to this effort of the New Zealand producer to rule out minor market fluctuations was based upon self-interest and not upon any general principle. Propaganda was employed against the Board's policy in an endeavour to prejudice public opinion by the suggestion that prices were being raised against the consumer. In a trade that works on relatively narrow margins of profit, small market movements that have no effect upon

retail prices are eagerly watched for and "good buying" consists in finding a selling agent who is a weak holder. Under the control regime, every agent was bound to observe the official quotation in making sales and it was no longer possible for traders to search the market by telephone for bargains.

Price-fixing was in operation from 4th November, 1926 until 15th March, 1927. Quotations were issued from time to time by the London Agency of the Board, acting in conjunction with a committee of three representatives of the selling agents to whom supplies had been allotted.[1] No comparison of the Board's prices during the period with those of competing supplies can of itself prove whether the price policy was sound or not, but it certainly disposes of the suggestion that it was arbitrary. Of course, allowance must be made for the fact that the Board's intervention necessarily had reactions upon other sections of the trade. For example, the market was improved for Australian butter and the condemnation of the price-fixing policy from that quarter was neither rational nor disinterested. Except for a week or two at the turn of the year, the quotation for New Zealand butter[2] was below that of the corresponding period of the previous season and the margin between it and Danish was such as might normally have been expected to prevail.[3] It may be that for some weeks in January and February, 1927, the New Zealand price was kept too high by as much as from 2s. to 4s. per cwt., as compared with Australian, but during that time, while Danish rose 17s., the New Zealand quotation was steady. Prices in all sections of the market fell away when absolute control was abandoned on 15th March, but a downward tendency had previously been apparent. The period of price-fixing was, in fact, too brief for any judgment in condemnation of the policy to be justified. While business interests have patience enough, as a rule, to test a trading policy over a relatively long period, producers are usually quick to

[1] Incidentally, it may be mentioned that these allottees agreed to sell for the Board at a commission of 2 per cent, as against the usual 2½ per cent. They were no longer at the expense of maintaining agents in New Zealand.

[2] No effective comparison of cheese prices can be made, since Canadian cheese is either more or less mature than New Zealand, according to the time of year, and the prices, therefore, do not move together.

[3] See price diagram following.

condemn their own organizations at the first sign of an adverse movement in prices, as well as being readily influenced by trade propaganda. To prevent weak spots from developing in a market to the prejudice of all sellers and without corresponding gain to consumers is surely sound. However, it required harmony among those responsible for making decisions and the efforts of the New Zealand producers were hampered by internal dissensions in the London Agency of their Board, as well as by all the other forces

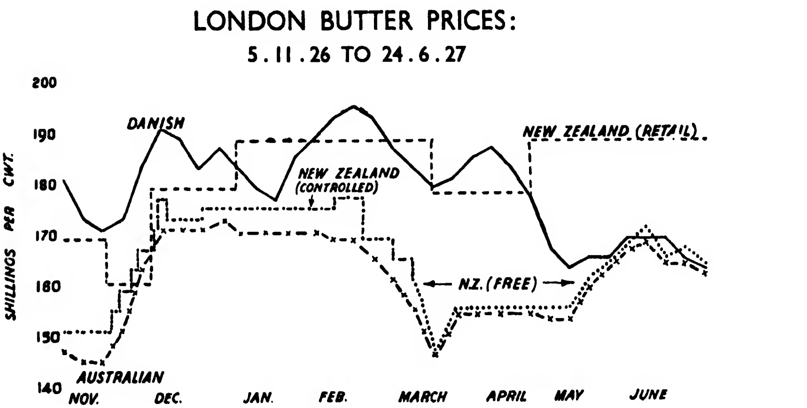

FIG. 2

arrayed against them. It seems clear, too, that the Board was not adequately prepared for the task it undertook and that its system of market control was too rigid. Had it devoted its energies beforehand to inducing the co-operative factories to combine in regional groups in a common marketing policy, it would have laid the foundation for a scheme of price control in such a way as not to antagonize the trade. Again, had it confined its efforts to reducing the number of selling agents and to supervising their operations closely, it would have achieved more enduring results.

The decline in sales during the control regime is often pointed to as certain proof of the inherent unsoundness of the policy. That New Zealand produce was effectively boycotted is perfectly true, but the fact that the butter market was not demoralized

during the ensuing summer shows that no dangerous accumulation of stocks had occurred.[1]

One aspect of the policy pursued by the Board is frequently lost sight of. By pooling the whole of the supplies, it was possible to pay a premium for quality,[2] which open market trading does not always yield.[3]

(*b*) *Price Policies of the Australian Canned Fruits and Dried Fruits Boards.* The above Boards are the only ones that now have an effective voice in the determination of prices, though the methods which they employ are to some extent determined by trade custom and do not run counter to hitherto existing practice. Thus the Canned Fruits Board, when the season's pack is about to come forward, makes "opening offers" to the trade in much the same manner as is done by California. These prices are not "firm," but may be varied as the season proceeds in accordance with the state of demand. In addition, reductions are made for quantity. As the Board exercises close supervision over the work of the selling agents, and uniform prices are prescribed for each quality, traders are unable to play one cannery off against another. All the sales in the British market are effected through approved agents and wholesalers are not supposed to deal direct with the canneries, though this has been done on occasion. Sales are made on f.o.b. or c.i.f. terms, when possible, in order to avoid storage charges in London.

The Dried Fruits Board has an even more flexible system of price regulation, as opinion of quality, and hence of value varies widely from consignment to consignment. On the arrival of the fruit in London, the importer forwards samples to the Board's Agency, where an appraiser estimates the value according to market conditions. Agents may not sell below this price without

[1] Weddel's *Review of the Imported Dairy Produce Trade*, 1926–27: "All speculative activity was stopped and a policy of hand to mouth trading, with a distinct tendency to avoid dealing in New Zealand butter or cheese, if any other suitable description was available, was pursued."

[2] For the first pool, the percentage of finest quality butter was 63; for the second, which included the hot summer months, it was 79.

[3] See following page for statistics relating to the controlled marketing of butter and cheese. The N.Z. Dairy Commission reported in favour of the resumption of absolute control but without any attempt at price-fixing (N.Z. Parliamentary Papers, H 30, 1934). Yet absolute control seems meaningless without price-fixing.

NEW ZEALAND DAIRY BOARD

Statistics Relating to the Controlled Marketing of Dairy Produce, 4th November, 1926, to 15th March, 1927

I. Quantities Pooled, Values, etc.

Pool	Quantity (tons)	Average Net Realization per cwt.	Cost of Marketing per cwt.	Total Net Proceeds
		s. d.	*s. d.*	£ *s. d.*
1st Butter Pool .	10,134	143 9·10	18 0·61	1,456,592 18 5
2nd Butter Pool.	39,677	142 3·54	17 2·55	5,645,876 15 9
Cheese Pool .	67,495	71 11·34	12 11·09	4,855,994 12 7

II. Payments per Pound, Showing Premium for Quality

First Butter Pool

	s.	d.
Finest	1	3·6809
First Grade	1	3·1809
Second Grade	1	2·1809
Average All Grades	1	3·4655

Second Butter Pool

Finest	1	3·435
First Grade	1	2·935
Second Grade	1	1·935
Average All Grades	1	3·308

Cheese Pool

	d.
Finest	7·858
First Grade	7·608
Second Grade	7·358
Average All Grades	7·740

III. Controlled Prices of New Zealand Cheese (Shillings per Cwt.)

New Zealand		s.	*Canadian*		s.
1926.	November 4th .	87	1926.	November 5th .	88
	November 17th .	85		December 3rd .	96
	November 26th .	87		December 10th .	98
	November 29th .	90		December 17th .	96
	December 1st .	94		December 22nd .	97
	December 7th .	96		December 31st .	98
	December 28th .	94	1927.	January 21st . .	100
1927.	January 3rd . .	94		February 11th .	102
	February 16th .	82		February 18th .	100
	March 3rd . .	88		March 4th . .	98
	March 9th . .	85		March 18th . .	96

the consent of the Board. As these agents are linked up with their own trade association, which is a close corporation comprising importers, brokers, and dealers, control really continues up to the retail stage. For exports to other markets, such as Canada, New Zealand, South Africa, and the East, the Dried Fruits Board in Melbourne fixes current prices.

(c) *Other Price Policies*. The New Zealand Meat Producers' Board does not interest itself directly in price movements, though it is, of course, concerned to see that any adverse movements are countered as far as possible. The London Agencies of the Australian and of the New Zealand Dairy Boards, on the other hand, hold conferences weekly with the importers at which prices, as well as other market problems, are discussed. The aim of these meetings is to form some opinion, based upon statistical and other information, as to price movements during the ensuing week and thus give a "lead" to the market, as is done each week in Copenhagen for Danish butter. As full discretion is left to the agents to accept whatever offers they choose (subject to any limits imposed by their principals), the practice does not appear to have any great value. It may, however, assist the Export Boards in fixing the minimum prices for f.o.b. and c.i.f. contracts, for the Boards now prohibit forward sales at less than the rates they prescribe. The two Boards must collaborate in this matter, otherwise forward business would tend to be done in the country having the lower official minimum.

(ii) **Control of Market Distribution.** In 1933, the New Zealand Honey Board decided to take absolute control, the Honey Producers' Association, which had functioned for some twenty years, having been dissolved. All honey is shipped to the Board's agency in London, where packing for the retail market is undertaken and sales effected. The arrangements of the New Zealand Fruit Board in regard to the control of marketing agencies have been varied from time to time, but it has always aimed at a uniform selling policy. At first a panel of nine selling agents was employed; next, all fruit for Great Britain and Ireland was disposed of through a single firm of brokers having branches at the various arrival ports; and then the panel system was revived, the grower having the right to nominate the broker to whom he

desired to consign his fruit. At present a panel of seven brokers is still employed, but the Board, not the individual grower, allots the fruit to them. Under these arrangements the fruit is pooled and the returns averaged among the consignors.

The New Zealand Dairy Board has recently taken further steps to regulate the operations of importers and agents,[1] the importers themselves having put forward proposals. By an amended system of export licences, allocations of all the exportable surplus of butter and cheese have been made to a group of thirty licensed importers in London who are all consignment agents. The allocations are subject to subsequent f.o.b. and c.i.f. sales which may necessitate adjustment of quantities. There are also three licensed brokers who purchase on f.o.b. or c.i.f. terms for clients in Britain. The panel of licensed agents includes all importers who handled New Zealand butter or cheese during the 1933–34 season. The Australian Dairy Board has licensed a total of thirty-four importing agents, but it does not exercise the rigid control over them that the New Zealand Board does. It is said that the number is too large and includes some that handle little produce, the greater part being dealt with by some eight firms. The operations of these agents are closely supervised by the Boards. Here again, intermediaries may have obtained a greater degree of security as a result of marketing control, but the price may be worth paying.

(iii) **Market Information.** The control which the Produce Boards exercise over market agencies is largely achieved through the system of export licences. By this means it is possible not only to regulate the rate of shipment, but also to secure statistical data and market information. The issue of an export licence is contingent upon the furnishing of particulars regarding the destination of the produce, the method of sale (whether forward or consignment), the agent to whom the goods are being forwarded, etc. This is the basis of the excellent statistical service which the Boards have been able to provide. Weekly statements are issued of stocks of dairy produce and of deliveries from stores in the final market and these are eagerly sought by traders. The New Zealand Dairy Board is also prepared to arrange for the

[1] *N.Z. Gazette*, 14/12/34, p. 3369.

audit of transactions of commission agents, if factories are not satisfied that their consignments brought the full price. The New Zealand Meat Board keeps producers informed of current prices for stock at the various centres in New Zealand, and so enables them to form better judgments in their dealings with export buyers.

Though the London Agencies of the Produce Boards report continuously upon all matters likely to benefit producers, they are not able to offer any specific guidance as to what marketing policy should be pursued. This is due to the multiple selling system, under which the produce is sold by numerous agents acting independently. In such circumstances, any advice that might be tendered would be bound to become public property and buyers could at once take steps to render it nugatory. In any event, it would probably be unwise to proffer advice since, as things are, each producing unit could interpret it as it liked and reject it at will. Still, the general market reports that are available in most cases are well worth while, since they are made from the producers' point of view.

The producers themselves are not agreed as to the advisability of supplying statistical information. For example, at the time when the Empire Marketing Board was endeavouring to secure the publication of certain cold store stocks in Great Britain, one New Zealand co-operative freezing concern, which in common with the rest had long made its stock figures available, expressed the belief that the existence of such information was an encouragement to speculators; and the monthly figures of butter and cheese graded for export are no longer published in New Zealand, being available only to those directly concerned. This is, of course, a short-sighted view, for no attempt to conceal the facts can in the end prevent any necessary adjustment of prices. By the regular issue of full information a more gradual movement in the market is ensured and devastating fluctuations, due to the sudden revelation of heavy or short stocks, over-buying, etc., can largely be eliminated. What the producers have in mind, however, is the possibility that the existence of large stocks will enable operators to depress values below what is required from the side of demand. Yet the publication of accurate figures cannot have

worse results than vague or wild guesses as to what supplies are available.

Information is largely lacking as to activity in the forward market. Annual figures are published of the proportions of the dairy produce exports sold forward, but there is no adequate record of the offers being made from time to time in this section of the market. Such data would be of value in determining the relative advantages of selling forward or on consignment.

(iv) **Collective Bargaining.** A considerable measure of success has been achieved by the Boards in arranging bulk contracts of carriage and insurance, as well as in conducting negotiations respecting the cost of other marketing services.

(*a*) *Insurance.* Comprehensive policies, covering "every risk whatever," including loss from defective condition from any cause, have been arranged by the Dairy Boards. The New Zealand policy, for example, covers the produce from the time the milk and cream are received at the factory until it reaches its destination and for thirty days thereafter,[1] with the exception that on the raw material fire loss only is provided for. There is evidence that, as the result of the bulk contract, the underwriters have been saved considerable administrative expenditure. On the other hand, the Boards have a very direct incentive to see that claims under the policies are reduced to a minimum, since this puts them in a strong position when negotiations for further contracts take place. The method of collective bargaining has, therefore, favourable reactions upon quality. The premiums on Australian dairy produce are not quite so favourable as the New Zealand rates, possibly on account of the smaller turnover.[2] The value of the produce on the date of arrival in London is taken as the basis of the premium payments, an arrangement which tends on the whole to favour the assured. Some sixty-four underwriters participate in the New Zealand contract, one-third being taken up by Lloyd's and the balance shared among the companies. The Australian cover is negotiated through the Marine Underwriters and Salvage Associations of Australia.

[1] An extension may be arranged, if desired.

[2] See page 140 for insurance rates and estimates of savings on various marketing services.

(*b*) *Ocean Freights.* Bulk contracts of carriage are made by the Meat and Dairy Boards, but the practice is not novel, since collective negotiation regarding this service has long been the rule. However, the present arrangements are probably more satisfactory in that they have brought into prominence problems that must be solved upon a national basis, if economies in certain directions are to be secured. While it is impossible, of course, to argue that the decline in freight rates in recent years is due solely to the efforts of the new authorities, yet a comparison with the rates ruling in the Argentine trade suggests that there has been at least some net gain.[1] The Australasian rates have fallen, on the whole, more than the Argentine, and when it is remembered that the distance is about twice as great and that the costs of working ports and ships are higher in the former case, the changes must be regarded as favourable to the Dominions. The Boards are necessarily impelled to a much larger degree of co-operation with the shipping interests than might otherwise obtain. Their constant aim must be to see that cargoes are as full as possible, that the number of loading ports per steamer is a minimum, that produce is delivered to the ships at suitable temperatures, and so on. It is also in the interest of both parties that port charges should be as low as possible.

(*c*) *Storage and Handling Charges.* The rates for storage and handling of produce in terminal markets are also the subject of collective negotiation. Despite the fact that cold-store space was considerably extended in Great Britain during the war, charges remained high and still appear as a very important item in marketing costs. While this is no doubt due in part to the fact that the most suitable stores occupy what may be termed key positions in relation to the markets, it seems desirable to secure economies wherever possible. Something has, indeed, been achieved in this direction. For instance, the bill of lading for dairy produce now provides that delivery shall be given from the cold stores, and not from the ship.[2] Hence sorting to marks can

[1] See p. 141 for freight rates in the three trades considered.

[2] The clause reads: "It is a condition of this Bill of Lading that the goods be delivered at consignee's risk and expense into craft for conveyance to Surrey Commercial Docks and Hay's Wharf for landing, ship's responsibility to cease on delivery overside into craft." The arrangement might not be upheld at law, but there can be no doubt as to its convenience.

RATES OF INSURANCE ON DAIRY PRODUCE

New Zealand

Average Rates payable when New Zealand Dairy Board constituted—

		s.	d.
Butter.	From and in Factory	9	6½%
	From and in Factory, including transhipment	11	4%
Cheese.	From and in Factory	11	4%
	From and in Factory, including transhipment	13	1½%

1924 Contract. Butter (as above) 7s. 0d. and 8s. 0d.% respectively.
Cheese (as above) 8s. 6d. and 9s. 6d.% respectively.

1925 Contract. As for 1924, plus 1%, due to the raising of the limit of £1 million in any stôre or steamer to £2 million. Higher limit since abandoned.

			s.	d.
1927 Contract.	Butter:	All risks	7	3%
	Cheese:	All risks	9	3%
1928 Contract.	Butter:	All risks	7	3%
	Cheese:	All risks	9	0%
1929 Contract.	Butter:	All risks	7	0%
	Cheese:	All risks	8	2%
1932 Contract.	Butter:	All risks	6	4%
	Cheese:	All risks	7	0%

Australia

		s.	d.
Contract expiring 30/6/31.	Butter	7	3%
	Cheese	8	3%

(Subject to adjustment by consent on account of exchange movements.)

Estimated Savings in Freight, Insurance and Storage on New Zealand Dairy Produce

Comparison of Payments made by 500-ton Factories

Butter Factory—

Season	Ocean Freight	Insurance	London Storage (First 14 days)	Total
	£	£	£	£
1923–24	4500	435	875(*a*)	5810
1929–30	3500	315	701	4516

Cheese Factory—

Season	Ocean Freight	Insurance	London Storage (First 14 days)	Total
1923–24	4667	290	620(*a*)	5577
1929–30	3588	200	520	4308

Annual Levy paid to Board:	Cheese Factory	£73
	Butter Factory	£146

(*a*) On 1926–27 rates; previous rates not available.

Note. The total levy paid by the industry in 1929–30 was £39,063. On the above basis the total annual saving reached approximately £450,000.

COMPARATIVE RATES OF FREIGHT TO THE UNITED KINGDOM ON CERTAIN COMMODITIES

BEEF (per lb.)

Year	S. Atlantic Conference (*a*)	Australia	New Zealand
1922 . .	¾d.	1⅛d.	1⅛d.
1923–24 . .	¾d.	1d.	1d.
1925 . .	23/32d. to 22/32d.(*b*)	1d.	⅞d.
1926 . .	21/32d.	⅞d. to ¾d.(*b*)	0·81d.
1927 . .	19/32d.	¾d.	0·81d.
1929 . .	18/32d.	¾d.	0·81d.
1930 . .	18/32d.	¾d.	0·766d.
1931 . .	(Not available)	¾d.	0·743d.

(*a*) Minimum rates, for all frozen meat.
(*b*) Reduction during year.

MUTTON AND LAMB (per lb.)

Year	Australia		New Zealand	
	Lamb	Mutton	Lamb	Mutton
1922–23 . .	1½d.	1¼d.	1½d.	1¼d.
1923–24 . .	1⅜d.	1⅛d.	1⅜d.	1⅛d.
1924–26 . .	1⅜d.	1⅛d.	1 9/32d.	1 3/32d.
1926–27 . .	1¼d.	1d.	1·18d.	1·011d.
1929–30 . .	1¼d.	1d.	1·121d.	0·957d.
1930–31 . .	1¼d.	1d.	1·089d.	0·929d.

BUTTER (per box of 56 lb.)

Year	S. Atlantic Conference	Australia	New Zealand
	s. d.	*s. d.*	*s. d.*
1922 . .	4 8	5 0	4 6
1923–24 . .	4 8	4 6	4 6
1925–26 . .	4 1	4 6	4 0
1926–27 . .	3 11 31/40	4 0	3 8·4
1929 . .	3 9½	4 0	3 6
1930 . .	3 9½	4 0	3 4·8

CHEESE (per lb.)

Year	Australia	New Zealand
1922	1⅛d.	—
1923	1d.	1d.
1924–26	1d.	0·906d.
1926–27	⅞d.	0·8094d.
1929–30	⅞d.	0·7656d.
1930–31	⅞d.	0·7437d.

take place under conditions which diminish the risk of deterioration, and speedier discharge is effected. Storage charges remained so high in the years following the war that the New Zealand Meat Board went so far as to secure a site for its own cold store in London.[1] Here again it is impossible to maintain the opinion that the reduction in the charges was due entirely to the Board's efforts. London costs are necessarily much higher in some respects than those ruling in the Dominions, but the margin appears very great. The average cost[2] of handling in New Zealand at the end of 1930 was for butter 19s. 2d. per ton and for cheese 9s. per ton. The service included receiving, grading, opening and trying out for net weights, stamping, piling in cold store, one month's storage and re-delivery. In London the charges ruling at the same time (averaging winter and summer rates) were for butter 34s. 6d. per ton and for cheese 21s. 9½d. In this case, the service included taking delivery over ship's side, barging, sorting to marks, storage at controlled temperature for one month and re-delivery.

One hopeful feature of the new system of contracting for marketing services is the realization that collective bargaining cannot in the long run drive the profits of any agency below normal. It is true that shipowners have regarded their capital expenditure as in part an investment in the future development of the countries concerned and that they assume risks, somewhat analogous to those of the farmer, in regard to whether adequate cargoes will be forthcoming or not. Yet the limits to the successful adoption of this policy have probably been reached and the case for frank exchange of views and ready co-operation between shipper and shipowner grows stronger. The total savings claimed by the Boards on insurance, freights, etc., are not to be taken at their face value,[3] but they do represent some degree of

[1] The reductions in London storage rates secured by the Board in 1928 were subject to the condition that it did not erect its own stores during the ensuing three years.

[2] Figures supplied by the New Zealand Dairy Board. The charges are averaged over 90 per cent of the total exports. Actual rates varied from 17s. to 22s. 8d. per ton for butter.

[3] E.g. the New Zealand Meat Board estimates the total saving on freights as £1 million over eight seasons. This Board, it may be mentioned, is not able to arrange bulk insurance contracts, as there are so many classes of cover for meat, according to the kind of risk the shipper desires to provide for. Besides, some concerns carry a part, or even the whole, of their own insurance risks.

constructive economy. The Australian Dairy Board has made the ingenious suggestion[1] that its savings on the handling of export produce should be multiplied by three, since every increase in the net price for butter sold in London resulted under the Paterson Scheme in a corresponding increase in the home market price for the remaining two-thirds of the output.

A large amount of publicity work is undertaken by the Produce Boards. Australian products are advertised through a central organization to which the Boards and the Commonwealth Government subscribe. The New Zealand Boards undertake their own publicity work. While it may be true that all advertising involves ultimately a large amount of social waste, it is none the less true that some publicity must be secured and that it must necessarily be organized upon a national basis. In some instances the selling agents contribute to the cost of advertising in proportion to their turnover. There are many difficulties, of course, in ensuring that the advertising is effective. Not only must the aim be to reach the retail buyer, but he must be assured of getting a product true to name and in good condition. It is possible to brand such articles as cheese and meat so effectively that the marks remain on retail quantities, but butter cannot be treated in this way and even if identifiable it may be sold after long storage. Hence, if the product is not of the highest quality and in the best condition, the expense of advertising is worse than lost.

A wide variety of useful services in other directions is provided by the Boards. Thus the New Zealand Meat Board has done much by the employment of competent officers to induce greater uniformity in the grading and dressing of meat from the various works and to ensure careful handling at all stages. Most of the Boards, too, employ officers to supervise shipment and discharge of cargoes and subsidize research work in various institutions. These are matters which, like many more, were formerly "nobody's business." Again, the New Zealand Dairy Board has secured the wide acceptance of a standard form of contract for forward sales. The Boards also co-operate with other agencies in research work and make trial shipments of produce to potential markets.

[1] Fourth Annual Report. The multiplier would now be under 2.

5. Conclusions

Some judgments have already been hazarded upon the results of the various experiments in marketing control. As regards the domestic trade, any estimate of the utility or desirability of regulation along the lines practised involves the consideration of the question of authoritarian economic adjustment. Here we enter a region where it is difficult, if not impossible, to disentangle fact and opinion or to distinguish desire from desert. It has been patent enough during the past decade that agriculture has increasingly fallen out of adjustment. What is more difficult is to determine to what extent that maladjustment is due to the continuance of sub-marginal production, what degree of reorganization is necessary in consequence and what measure of discrepancy between agricultural and other prices would still remain. Unfortunately, no precise answer can be given to any of those questions. Hence, in the domestic market, the farmer, like the "economic man," has been left to try for what he can get, with powerful aid from a paternal government and a tolerant community. As the producers of one commodity after another have succeeded in securing differential prices, the mounting costs of the whole artificial economy tend to press more and more upon the few but important articles for which a "home price" cannot be exacted. The method may be satisfactory enough and produce a desirable measure of equilibrium so long as the returns from non-protected farming remain relatively high and the prices of non-agricultural commodities do not decline in turn. But this condition has not been fulfilled and there is little evidence as yet that the marketing control organizations are taking steps to make adequate adjustments in prices. Emphasis is still laid upon cost of production as determining values and included in that cost are rigid elements like the high price assigned to land. It is beside the point to declare, as was done at the second Bathurst (N.S.W.) Conference of producers and consumers in June, 1931, that the farmer must have at least 1s. 11d. per lb. net for his butter in order to pay his way, if, at the same time, the local community is turning to substitutes and the current realization on the London market is under 1s. Present economic conditions provide a test for the producers' organizations. If they make the

necessary adjustments with sufficient rapidity, they will justify themselves and survive. If they do not, they will not merely inflict harm upon consumers, but will be compelled ultimately to make more sudden and devastating concessions.

The Export Control Boards appear to occupy a somewhat anomalous position at present. They have been frightened into the elimination of the word "Control" from their titles and do not seem to have any present intention of promoting adequate reforms in marketing methods, though the New Zealand Dairy Board is moving once more in that direction. It is true to say that, in the export trades, the general marketing structure remains very much what it was when reforms were so insistently demanded. It may be contended that prices improved and so thrust these projects into the background, but they have now fallen lower than ever. No heroic measures could, of course, succeed in restoring the price level, but much might be done to improve the marketing mechanism.[1] Yet the more important of the Export Boards confine their attention to administrative work which might well be undertaken by a single body acting for all the trades concerned. In each Dominion, such of the Boards as are not engaged in actual marketing work might be re-constituted as an export trades commission,[2] which would arrange freight and insurance contracts, advertising, and the like, leaving other matters to the government or to less ambitious producers' organizations.

[1] The N.Z. Dairy Commission "hesitates to express definite conclusions regarding the system of marketing that should be adopted in the United Kingdom" (N.Z. Parliamentary Papers H 30, 1934).

[2] *Cf.* the Perishable Products Export Control Board set up in South Africa in 1926. The recently formed N.Z. Executive Commission of Agriculture and the Australian Agricultural Council may do something in the way of co-ordination.

CHAPTER IV

THE STRUCTURE OF THE MARKETS

1. General Considerations

(*a*) **The Relative Importance of the Export Trades.** The dependence of the Australasian economy upon export markets for primary products needs no demonstration. It may be that climatic conditions and the fact that a surplus of food is produced render export from these Dominions less imperative than in the case of a manufacturing country, but the quality of the lives which their citizens are able to enjoy depends very largely upon profitable overseas trade. The export trade in wool is over a century old and wheat has been shipped abroad since the 'sixties. Natural conditions favoured the production of these staples at prices which for long secured them easy entry into overseas markets. Greater diversity in the export trades had to await the coming of refrigeration. But, when perishable products began to take their place with wheat and wool, the politico-economic background was no longer the same. With the active promotion of land settlement, the development of the export trade in meat and, more especially, in dairy produce became in a measure the concern of governments. Thus in 1893, a Government Produce Department was established in South Australia for the purpose of stimulating the export of frozen mutton and of minor perishables for which neither private nor co-operative enterprise appeared to be willing to provide. With the turn of the price tide at the close of last century, it became possible to finance a further expansion of rural enterprise by means of advances to settlers by governments. The increased output was readily absorbed in a market widened by the growth of population and by the decline of the United States' export trade in foodstuffs.

The relative importance of the export trade may be gauged from the fact that, for the decade 1919–20 to 1928–29, about one-third of the total production of all industries was exported from Australia.[1] The proportion varied considerably from one

[1] *Commonwealth Year Book*, 1930, p. 144.

industry to another. Thus, of the total agricultural production about 28 per cent was exported; of pastoral production, 67 per cent; of dairy and farmyard production, 20 per cent. The proportion of the total primary production exported was approximately 47 per cent; of manufactured output, under 4 per cent. Of the total value of all exports, pastoral and dairy farming furnished 60 per cent, agriculture 25 per cent, and primary produce of all kinds 96 per cent. A very similar situation obtains in New Zealand, though the relative importance of the several branches of rural industry is somewhat different. For the decade 1918–1927, pastoral products (including wool, meat, dairy produce, hides, skins, etc.) constituted 92 per cent in value of all exports and agricultural products (including cereals, pulse, fresh fruits, etc.) only 1·4 per cent. Some idea of the varying degree to which various articles participate in the New Zealand export trade may be seen from the following averages for the period 1925–26 to 1929–30.[1]

Commodity	Percentage of Total Production Exported	Commodity	Percentage of Total Production Exported
Beef . .	21	Mutton . .	54
Lamb . .	93	Wool . .	97
Butter . .	81	Cheese . .	95

Changes in the relative importance of the articles of primary produce exported may be seen from a comparison of the annual averages of five fairly stable pre-war and post-war years. The figures for Australia are—

	1904 to 1908		1923–4 to 1927–28	
	Value (£1000)	Percentage of Total Exports	Value (£1000)	Percentage of Total Exports
Wool . .	22,278	36·23	61,761	44·00
Meats . .	2,313	3·76	5,607	3·99
Wheat . .	4,444	7·23	20,239	14·42
Flour . .	1,100	1·79	5,965	4·25
Butter . .	2,662	4·33	6,848	4·88
Cheese . .	8	0·01	233	0·17

[1] Statistics of value of total production of all articles are not available for New Zealand, and such detailed figures as are published are in broader groups than those for the Commonwealth.

In the case of New Zealand, wheat and flour are relatively unimportant. For other commodities, comparable figures are—

	1904 to 1908		1924 to 1928	
	Value (£1000)	Percentage of Total Exports	Value (£1000)	Percentage of Total Exports
Wool . .	5,962	35·11	14,896	28·89
Meats . .	2,995	17·64	9,749	18·90
Butter . .	1,427	8·40	10,559	20·45
Cheese . .	435	2·50	6,208	12·03

By recasting the above figures and adding to them where necessary some idea may be obtained of the competitive power of the Australasian Dominions in respect of the primary products they export. The criterion here considered is the extent to which the articles are products of the extensive use of land. The following are the average annual values of exports of relevant commodities together with the percentage that each forms of the total value of all exports—

AUSTRALIA: 1923–24 TO 1927–28

Products of Extensive Use of Land	(£1000)	%	*Products of Intensive Use of Land*	(£1000)	%
Wool and Sheep-skins . . .	65,953	47·1	Fresh Fruit . .	1,227	0·8
Other Skins, Hides, and Tallow .	5,979	4·2	Dried Fruits and Wine . . .	2,105	1·5
Meats . . .	5,607	3·99	Butter and Cheese .	7,081	5·05
Wheat and Flour .	26,204	18·67	Sugar . . .	2,651	1·8
TOTAL % .		73·96			9·15

NEW ZEALAND: 1924 TO 1928

Products of Extensive Use of Land	(£1000)	%	*Products of Intensive Use of Land*	(£1000)	%
Wool . . .	14,896	28·89	Fresh Fruit . .	280	0·54
Hides, Skins, and Tallow . .	4,249	8·24	Butter . . .	10,559	20·45
Meats . . .	9,749	18·90	Cheese . . .	6,208	12·03
Cereals, etc. . .	450	0·87			
TOTAL % .		56·90			33·02

(*b*) **The State in Relation to Marketing.** In 1925, a Department of Markets and Migration (now the Department of Commerce) was established in the Commonwealth. Its main functions are: (i) the supervision of the grade and quality of goods exported; (ii) the organization of overseas marketing and the control of trade publicity abroad; and (iii) the collection and dissemination of commercial information. The Department also takes part in the regulation of inter-State trade by collaborating with other bodies in the determination of the home and export quotas.

The South Australian Government Produce Department experienced considerable losses after the war owing to the falling off in the export trade in mutton. The Department has been turned over to the recently formed Metropolitan and Export Abattoirs Board, and the State Produce Agency which was in existence in Queensland from 1919 until 1929 and which was concerned chiefly with local trade and with the supply of goods to farmers has been sold to private interests. In Western Australia, the Department of Agriculture operates butter factories, and the Wyndham Freezing Works in that State are government owned. In New South Wales there was until recently a state fruit cannery and the Victorian Government has for long operated cold stores in Melbourne.

Officers, whose business it is to keep in touch with markets and report upon conditions of trade, are attached to the staffs of the High Commissioners and of the Agents-General in London and trade commissioners are being appointed in many parts of the world. A considerable amount of publicity work is also undertaken at the London Offices of the various governments.

(*c*) **The Relation of the Internal to the External Market.** Some indication has already been given of how, by the employment of various fiscal and other devices, a discrepancy has appeared between prices for certain commodities at home and abroad. Yet the field to which this policy can be applied is restricted, as may be seen from the figures on pp. 147-8; and, in any case, the internal market cannot offer permanent resistance to world price movements, unless a relative decline in the export trades is contemplated. The sheep and cattle industries are almost the only

ones that have not received some sort of subsidy in Australia and in which home and export prices tend to be uniform. Indeed, the former was even threatened with loss owing to the imposition for a time during 1930 of an export duty on sheepskins with a view to assisting the Australian fellmongering industry. Australian flour is quite frequently quoted at a lower price for export than for local consumption, the disparity being rendered possible by some degree of combination in the milling trade, by variations in the home demand for milling offals, and by the desire to keep mills running and so diminish overhead expenses. Temporary disparities may appear owing to climatic conditions in a State or to the restriction of the movement of livestock or of vegetable foodstuffs under its "quarantine powers." In New Zealand, except for wheat, prices in the internal market and for export are uniform. In both Dominions some of the costs of retail distribution are higher than in the consuming countries abroad though other items, such as rent and service to customers, are often lower.

(*d*) **The Relation of Control Organizations to the Market.** The somewhat anomalous position of the export control authorities has already been referred to. Except in the case of a few commodities, middlemen and producers are left almost entirely free to regulate their relations with each other in respect of prices and the actual sale of goods. The Boards' marketing activities are similar in many ways to those of produce exchanges. Their London Agencies serve as clearing-houses for market intelligence and do something to remove causes of dispute between buyers and sellers. For the rest, they have no effective influence in any market transactions.

The regulation of the domestic trade in certain commodities has resulted, in some cases already mentioned (Chapter III, Section 3), in a degree of security to processers and middlemen which they never before enjoyed.

(*e*) **The Marketing of Non-controlled Products.** It is interesting to observe that the two important commodities, wool and wheat, of which the marketing is not subject to statutory regulation, may be distinguished from the rest by their methods of disposal. The first is unique in being sold by auction; the second, in that

it may be, though seldom is, the subject of constructive speculation.[1] Wool, too, is the one commodity of which Australian producers might have attempted to regulate prices with a prospect of some success, for the proportion of the fine wool entering into world trade which they supply is high. However, the relatively good prices which have ruled during most of the post-war period show that there would have been little to gain from any scheme of valorization, and the recent severe depression suggests that there might have been much to lose. In both of these non-controlled trades marketing efficiency, as judged by costs and by the quality of the organization provided, is high.

(*f*) **Recent Developments in Marketing Structure.** In the main these have been in the direction of extending co-operative enterprises. In Australia, and to a less degree in New Zealand, some progress has been made in the formation of producers' marketing organizations, with affiliated groups of co-operatives and representation in London. This development may be compared with what had already taken place in Denmark and is a perfectly natural consequence of the long-standing practice of selling through a multitude of small co-operatives. By these and other means, more direct and effective contact with final markets has been secured. Since the war, the producers and the various marketing agencies have become more closely knit. This measure of integration has been due partly to waning confidence in the efficiency of the middleman, partly to the realization that there are many ways in which the several interests can usefully co-operate, and partly to the direct challenge represented by pools and other forms of marketing control. Much of the marketing legislation in Australia and New Zealand has also been directed to the same end. How much further the process will go, it is not possible to say, but there are several directions in which it might be developed when conditions become more favourable.

There has been a considerable decline in merchanting, i.e. in the purchasing and carrying of stocks by intermediaries not engaged in the retail trade or in manufacture. This is especially

[1] The quality of the wheat is normally too high for it to be profitably tendered under a futures contract in Liverpool, say, but millers and others may, and do, hedge their purchases.

true of wheat, but it applies also to wool and perishable foodstuffs. The decline is in large measure due to the growth of large milling and retailing concerns which are able to dispense with an intermediary. To some extent it results from the fact that the small retailer has been given more direct access to the importing houses which in many cases are now prepared to sell such articles as meat and dairy produce in comparatively small quantities. Apart from the other influences at work, the long-continued fall in prices has been especially unfavourable to the operations of the merchant who cannot buy from hand to mouth in the way it is possible for millers, manufacturers, and retailers to do and who has stood to lose on whatever stocks he held.

The decline in the importance of the merchant, as well as progressive deflation, has resulted in some change in the distribution of market risks. Under present circumstances, there is less speculative buying in general and a marked tendency to throw back on to the producer the task of carrying stocks, which have become more "visible" in the process. To some extent, as with wheat and wool, he has readily assumed this risk and, so far as the Australasian trades are concerned, he has been in consequence impressed with the necessity of meeting the market and avoiding the accumulation of stocks. It is perhaps worth noting that, down to 1930, some buyers continued at times to take a favourable view of future price movements and that considerable support was afforded to markets in consequence.

(*g*) **The Place of Australasian Products in the British and other Export Markets.**[1] It is possible at this distance to estimate how far the pre-war trends in the development of export markets have been modified since 1920. As regards the total export trade of Australia and New Zealand, there was a steady decline during the post-war decade in the proportion directed to the United Kingdom and a similar decline in the relative amount of trade with other British countries. The value of the export trade of Australia with the United Kingdom fell on the whole simultaneously, though it remained unchanged in the case of New Zealand. Some rise was recorded in the pre-depression years in

[1] For the statistical information upon which this discussion is based, see the detailed tables on pp. 158-167.

the value of New Zealand exports directed to British Possessions, but this was due in the main to increased trade with Canada, a trade that has recently been diminished by tariff adjustments in that country. The diminution of the share of the total exports taken by the United Kingdom in the post-war decade is in part explained by the increase of direct shipment and the decline in the entrepôt trade. This is particularly true of wool, hides, skins, and wheat, so that the recorded increase of trade with foreign countries in these commodities is to some extent fictitious. Before the depression, the volume of exports of merchandise from Australia declined relatively to population, but it is impossible to say whether or not this was due to a greater degree of self-sufficiency or to a temporary advantage in the terms of trade (e.g. favourable wool prices). At the moment, with a depreciated exchange and favourable seasons, the trend of the volume of exports is upwards once more. This rise has been accompanied by a marked increase in the proportions of the total exports of both Dominions directed to the British market.

These broad considerations do not, however, furnish any clue to the tendencies at work in particular trades and especially in those with which we are mainly concerned, i.e. wool, wheat, dairy produce, and meat. The percentage of the total Australasian wool exports directed to Great Britain was declining before the war, and though there was a momentary recovery after 1919, the trend is still downward. The proportion of Australian wool exports that is now forwarded to the United Kingdom is less than one-third, and in the case of New Zealand is about three-quarters. Of the total Australasian export, only 40 per cent comes to Great Britain. Japan, France, Germany, and Belgium (in that order) are important customers and together take more than the mother country. The annual figures show that the trade with these countries is increasing, while there is a marked decline in the purchases of the U.S.A. The small amounts of New Zealand wool that go to Australia are partly for the use of manufacturers there and partly for sale by auction along with the Commonwealth clip. Yet, when all is said, it remains true that wool-growers are still largely dependent on Great Britain both for the consumption of their product and for its sale to foreign buyers.

The degree of dependence upon the British market is not so great in the case of Australian wheat and flour. Prior to the war, the United Kingdom, with South Africa as a poor second, took about three-quarters of the wheat exported, but since 1920 there has been a marked falling-off both in the absolute quantity and in the percentage of the total exports directed to Great Britain. Like the flour trade, the trade in wheat is becoming widely scattered. More than one-third of the flour exports, which have expanded more rapidly in recent years than the exports of wheat, were directed to Egypt down to 1930 and the Netherlands East Indies is now almost as important a customer as Britain.

The bulk of the Australasian dairy produce export is forwarded to the United Kingdom. Australia's cheese trade is unimportant, but that of New Zealand is one of the most considerable in the world and is almost entirely with Great Britain. The marked expansion in the New Zealand exports, which was already in progress before the war, was rendered possible in part by the contraction of the Canadian share of the British market. The proportion of the butter exports directed to the United Kingdom is about the same as in pre-war years, but the absolute quantities are more than four times as great. Australia's second best customer is the Netherlands East Indies, which takes, however, only about 4 per cent of the total; and, though New Zealand has had an important trade with Canada in recent years, rising to about 20 per cent of the total export in 1929, this market has recently been lost through tariff changes, and is not likely to be restored.

The vicissitudes of the meat export trade are interesting. In the early years of this century, the bulk of Australian frozen beef was sold to South Africa and the Philippines, and even Russia took as much, on the average, as Great Britain. A marked increase in the total trade began about 1909, and with the decline in exports from the U.S.A., more than three-quarters of the Australian output came to find a market in the United Kingdom. After 1920, this tendency was reversed and, between 1926 and 1930, only about half went to Britain, the proportion being now three-quarters. The New Zealand trade, which is less important than that of Australia, has been declining since the war. The proportion of the export that went to Great Britain fell for a

time, but almost the whole now goes to that market; while for the two Dominions together, it is nearly 90 per cent. Since the taste for mutton is not so widely developed as that for beef, it is but natural to expect the exports of the former commodity to be directed to relatively few markets. In the early years of this century, Australia had a considerable mutton trade with South Africa, but, since 1909, the bulk of the output, like that of New Zealand, has been forwarded to Britain. The large exports from New Zealand to the U.S.A. in the years immediately following the war were abnormal, being due to the clearing of stocks by the British Government, and not to the opening up of a new outlet.

From the tables presented, it will be seen how great is the dependence upon the British market for the disposal of foodstuffs. The development of other markets has not proceeded very far, and what little has been achieved has been due to geographical position and the available shipping services. Thus Australia has a far more considerable trade with the East than has New Zealand, while the latter country is in a more favourable position to trade with North America, owing to shipping arrangements. The opening of the Panama Canal has diminished the possibilities of trade between New Zealand and South America,[1] but it has given direct access to the Atlantic ports of North America. The falling-off in the trade between Australasia and South Africa can be accounted for very largely by the development of agricultural industry in the Union. The policy of economic nationalism threatens at the moment to cut off alternative markets for foodstuffs, with the resulting concentration of the trade more and more upon Great Britain.

It is interesting to turn now to the other side of the picture, viz. the share of the British market secured by Australasian primary products. The import of wool from Australia and New Zealand was growing fairly rapidly before the war, but the average annual import from these sources during the period 1925–29 was not so great as during 1909–13. This is partly explained by the decline in the entrepôt trade, since the percentage

[1] At present (1936), however, a considerable number of cargo ships make the homeward voyage *via* Cape Horn and South American ports.

of imports retained was 62 for the more recent period, as compared with 56·5 for the earlier one. The net consumption of Australasian wool has not until lately been any higher than before the war. The amount consumed per head of population declined after 1920, but has risen since 1930. The fall during the post-war years was confined entirely to New Zealand wool, the Australian quota having continued to rise throughout. Of the total United Kingdom imports of wool, the proportion from Australasia has been declining of late and at 56 per cent is lower than for the pre-war years.

Although there has been an expansion of wheat-growing in Australia since the war, the quantity imported into Britain was not very much greater during the post-war decade than for the period 1909–13, and the share of the British market remained about the same. In recent years, however, imports from Australia have expanded considerably and now form one-fifth of the total. The New Zealand cheese trade, which constituted less than 20 per cent of British imports in the five pre-war years, now amounts to nearly two-thirds. Australasian butter, too, occupies a much more important place in the British market than formerly. Since the war, New Zealand has provided on the average more than 20 per cent of the total imports each year and has for long furnished more than Australia. In recent years 45 per cent of the total imported supplies has been obtained from these Dominions, and the proportion is rising again.

In view of the strong position of the Argentine, it would be idle to expect any increase in the quota of British beef supplies coming from Australasia. It is, indeed, somewhat remarkable, in view of the great advantages enjoyed by South America, that the trade has remained so extensive as it is. The proportion has fallen since 1920, yet the absolute quantity is greater than it was in the pre-war years. The import of mutton and lamb from the antipodes declined both absolutely and relatively in the post-war decade principally owing to the fall in Australian exports. The trade has recently expanded and now nearly 70 per cent of British imports come from Australasia.

The British entrepôt trade in foodstuffs from Australasia is unimportant, though the figures may at times suggest otherwise.

It may be described as accidental and spasmodic, since the requirements of the British consumer form the prime consideration with traders in food.

One matter may be referred to finally in bringing this somewhat tedious, but important and necessary, statistical review to a close. Simultaneously with the developments in the Australasian export trades that have just been discussed, changes have been taking place in the nature of the demand for foodstuffs in the United Kingdom and elsewhere. Increasing urbanization of the population, together with the elimination of much manual labour, has tended to reduce the per-capita consumption of the cruder forms of foodstuffs.[1]

(*h*) **Producers' Critique of the Marketing Process.** When, if ever, the farm was a closed economy, the "satisfactions" it yielded depended upon the vagaries of the weather and the family capacity for consumption. When it came to furnish a surplus, the disposal of that surplus was in part a social occasion and a matter of direct bargaining (sometimes of barter) with consumers. With progressive specialization, the farmer tended more and more to quit the commercial sphere and leave the disposal of his product to intermediaries. The result, particularly in times of economic stress, has not always been happy and now the tide is running strongly in favour of the farmer's forming direct contact with consumers once more. Till recently, his intense individualism, the relatively favourable level of prices, and the reasonably satisfactory services of middlemen, who had evolved a system of marketing designed to conserve their own interest rather than that of producer or consumer, all tended to make the farmer concentrate his energies almost entirely upon the work of production. When he is told that the major part of the marketing problem can be solved on the farm and that marketing is but a continuation of the productive process, he is naturally somewhat incredulous. He may be aware that his dissatisfaction with marketing methods is related to failure to develop a highly standardized product, but he feels that, if it is his business or that of his

[1] See, e.g. A. W. Flux—"Our Food Supply Before and After the War" (*Journal of the Royal Statistical Society*, 1930, p. 538); see also "The Agricultural Output and Food Supplies of Great Britain" (Ministry of Agriculture and Fisheries, 1929).

AUSTRALIA

Percentage of Total Exports Directed to Each Country[1]

Country	1904–08	1909–13	1919–20 to 1923–24	1924–25 to 1928–29	1929–30 to 1933–34
United Kingdom[2]	46·88	45·14	46·47	38·69	49·07
British Possessions					
Canada	0·31	0·17	0·23	0·60	1·00
Ceylon	6·32	4·24	0·75	0·40	0·38
Fiji	0·44	0·53	0·41	0·33	—
Hong-Kong	1·16	0·98	0·78	0·38	—
India	4·40	2·96	2·45	2·78	1·54
Mauritius	0·07	0·04	0·10	0·07	—
New Zealand	3·21	3·16	4·50	3·02	2·88
Papua	0·08	0·16	0·19	0·15	—
South African Union	3·21	2·39	1·80	1·53	0·48
British Malaya	0·61	1·11	1·94	1·30	0·98
Other British Possessions	0·11	0·10	2·82	0·96	2·52
Total British Possessions	19·92	15·84	15·97	11·52	9·78
Total British Countries	66·80	60·98	62·44	50·21	58·85
Foreign Countries					
Egypt	—	—	—	2·26	1·05
Belgium	6·12	8·19	4·21	5·41	4·68
Pacific Islands	0·69	0·84	0·42	0·30	0·27
Chile and Peru	0·97	0·82	0·16	0·27	—
China	0·53	0·20	0·58	0·41	3·02
France	8·85	10·86	7·80	11·60	6·58
Germany	8·00	9·21	2·29	6·24	5·63
Italy	0·32	0·70	3·93	4·06	3·38
Japan	1·35	1·58	6·20	7·70	10·01
Netherlands East Indies	0·33	0·64	1·76	1·38	1·40
Netherlands	0·47	0·40	0·74	0·71	0·41
Norway	0·01	—	0·15	0·05	0·03
Philippines	0·72	0·70	0·48	0·33	0·35
Spain	0·09	0·03	0·15	0·15	0·17
Sweden	0·01	0·01	0·15	0·21	0·17
U.S.A.	3·87	2·74	7·12	7·49	2·91
Russia	—	—	—	0·52	—
Other Foreign Countries	0·87	2·10	1·42	0·70	1·09
Total Foreign Countries	33·20	39·02	37·56	49·79	41·15
Total	100·00	100·00	100·00	100·00	100·00

[1] Source: *Commonwealth Year Books.*
[2] Excluding Irish Free State after 1923–4.

NEW ZEALAND

PERCENTAGE OF TOTAL EXPORTS DIRECTED TO EACH COUNTRY[1]

Country	1904–08	1909–13	1921–25	1926–30	1931–34
United Kingdom . .	79·63	80·44	82·36	74·66	85·90
British Possessions					
Canada . . .	—	1·56	1·13	3·73	1·07
India	—	0·01	0·50	0·39	0·13
Ceylon . . .	—	0·43	0·05	0·01	—
Union of South Africa .	—	0·34	0·10	0·07	—
Australia . . .	—	11·30	4·97	5·93	3·70
Fiji	—	0·41	0·26	0·30	0·22
Other British Possessions	—	—	0·49	0·52	0·45
Total British Possessions	15·20	14·05	7·50	10·95	5·57
Total British Countries.	94·83	94·49	89·86	85·61	91·47
Foreign Countries					
Germany . . .	—	0·97	1·23	1·53	1·16
France . . .	—	0·37	0·61	1·99	1·76
Belgium . . .	—	0·10	0·12	0·34	0·75
Japan . . .	—	—	0·41	0·57	1·02
U.S.A.	—	3·01	6·81	8·83	2·54
Other Foreign Countries	—	1·06	0·96	1·13	1·30
Total Foreign Countries	5·17	5·51	10·14	14·39	8·53
TOTAL . . .	100·00	100·00	100·00	100·00	100·00

[1] Source: *N.Z. Year Books* and Annual Statistical Reports on Trade and Shipping. The calculations for the first period are made first-hand.

AUSTRALIA AND NEW ZEALAND

Distribution of Exports among Various Countries

I. Wool (million lb.)

Period	Exporting Country	Average Annual Exports	Average Annual Exports to										
			United Kingdm.		France	Germany	Belgium	U.S.A.	Italy	Japan	Canada	Australia
			Quantity	%								
1904–8	Australia .	488	233	47·7	109	72	49	18	2	4		
	New Zealand	155	151	97·4	1			2				
	Total .	643	384	59·7	110	72	49	20	2	4		
1909–13	Australia .	627	244	38·9	166	119	63	16	5	9		
	New Zealand	188	177	94·1	2	4		4				
	Total .	815	421	51·7	168	123	63	20	5	9		
1920–21 to 1924–25	Australia .	618	291	47·1	117	33	48	43	28	46		
1920–24	New Zealand	213	187	87·7	3	6		8		3	2	1
	Total .	831	478	57·5	120	39	48	51	28	49	2	1
1925–26 to 1929–30	Australia .	778	242	31·1	185	95	85	34	35	89		
1925–29	New Zealand	220	164	74·5	18	12		10		5	3	5
	Total .	998	406	40·7	203	107	85	44	35	94	3	5
1930–31 to 1933–34	Australia .	848	261	30·7	120	110	89	10	56	179	2	
1930–34	New Zealand	238	179	75·2	17	10	8	2	2	8	4	5
	Total .	1086	440	40·5	137	120	97	12	58	187	6	5

II. Australian Wheat (million centals)

Period	Average Annual Exports	Average Annual Exports to													
		U. Kingdom		South Africa	Japan	Italy	Egypt	Belgium	France	Netherlands	India	Germany	China	Irish Free State
		Quantity	%											
1904–08	15·85	11·67	73·6	2·37										
1909–13	25·20	18·20	72·2	1·80										
1920–21 to 1924–25	44·60	18·40	41·2	1·49	3·76	6·53	2·04	1·48	3·44	0·82	1·81	1·04		
1925–26 to 1929–30	36·42	13·36	36·6	2·13	3·22	3·75	1·83	1·11	1·20	1·04	1·98	0·77		
1930–31 to 1933–34	64·17	25·51	39·75	0·22	9·71	3·79	—	0·71	—	—	1·86	—	13·59	1·56

III. Australian Flour (million centals)

Period	Average Annual Exports	Average Annual Exports to											
		United Kingdom	South Africa	Egypt	Netherlands East Indies	British Malaya	India and Ceylon	Philippines	Hong Kong	New Zealand	Portuguese East Africa	Mauritius	Sudan
1904–08	2·83	0·61	0·56	—	0·24	0·19	—	0·18	0·24	0·09	0·23	—	—
1909–13	3·34	0·55	0·61	0·19	0·63	0·31	—	0·27	—	—	0·27	—	—
1920–21 to 1924–25	7·84	1·86	0·67	2·61	0·81	0·50	0·14	0·19	0·16	—	—	—	—
1925–26 to 1929–30	9·83	1·45	0·43	3·60	1·44	0·94	0·39	0·18	0·10	0·21	0·12	—	—
1930–31 to 1933–34	11·54	2·94	—	1·54	1·57	0·90	0·40	0·22	0·69	0·07	0·13	0·21	0·22

IV. Butter (million lb.)

Period	Exporting Country	Average Annual Exports	Average Annual Exports to: United Kingdom Quantity	United Kingdom %	South Africa	Netherlands East Indies	British Malaya	Canada	Egypt	Hong Kong	Philippines	India & Ceylon	Panama	China	France	Australia	U.S.A.	Pacific Islands
1904–08	Australia .	63	56	88·9	4·5	0·7	0·3	0·1		0·4				0·2				
	New Zealand	34	32	94·1	1·5													
	Total .	97	88	90·7	6·0	0·7	0·3	0·1		0·4				0·2				
1909–13	Australia .	78	70	89·7	2·2	1·4	0·6	0·3		0·4	0·7	0·2		0·4				
	New Zealand	39	34	87·1	1·1			2·2									0·6	0·2
	Total .	117	104	88·8	3·3	1·4	0·6	2·5		0·4	0·7	0·2		0·4			0·6	0·2
1920–21 to 1924–25	Australia .	102	91	89·2	0·8	4·9	0·9		0·3	0·5	0·4	0·3		0·7	0·5			
1920–24	New Zealand	109	102	93·5				2·5								1·3	1·7	0·8
	Total .	211	193	91·4	0·8	4·9	0·9	2·5	0·3	0·5	0·4	0·3		0·7	0·5	1·3	1·7	0·8
1925–26 to 1929–30	Australia .	97	82	84·5	0·4	6·2	1·4	0·9	0·9	0·8	0·7	0·5	0·5	0·8	0·3			
1925–29	New Zealand	156	132	84·6				15·3								3·5	2·8	1·3
	Total .	253	214	84·5	0·4	6·2	1·4	16·2	0·9	0·8	0·7	0·5	0·5	0·8	0·3	3·5	2·8	1·3
1930–31 to 1933–34	Australia .	209	192	91·8		7·7	1·3		1·5	0·7	0·9	0·5		1·2				0·4
1930–34	New Zealand	253	243	95·2				7·1					1·2					
	Total .	462	435	94·1		7·7	1·3	7·1	1·5	0·7	0·9	0·5	1·2	1·2				0·4

V. New Zealand Cheese (1000 cwt.)

Period	Average Annual Exports	Average Annual Exports to				
		United Kingdom		South Africa	Australia	U.S.A.
		Quantity	%			
1904–08	165	162	98·1	1	—	—
1909–13	496	493	99·5	2	—	—
1920–24	1357	1353	99·7	—	3	—
1925–29	1536	1525	99·3	—	6	3
1930–34	1841	1839	99·8			

VI. Frozen Beef (million lb.)

Period	Exporting Country	Average Annual Exports	Average Annual Exports to: United Kingdom Quantity	United Kingdom %	South Africa	Philippines	Egypt	Russia	British Malaya	Italy	Malta	Belgium	Germany	Japan	Gibraltar	U.S.A.	Canada	Hawaii	France
1904–08	Australia .	43	6	13·5	17·0	10·0	1·4	6·0											
	New Zealand	29	28	96·5	0·1														
	Total .	72	34	47·2	17·1	10·0	1·4	6·0											
1909–13	Australia .	130	101	77·7	5·5	12·0	2·1		1·5	2·3	1·2								
	New Zealand	40	38	95·0											0·6	0·1	0·8		
	Total .	170	139	81·7	5·5	12·0	2·1		1·5	2·3	1·2				0·6	0·1	0·8		
1920–21 to 1924–25	Australia .	169	123	72·8		6·4	5·4		2·4	10·1	1·2	7·1	5·9						
1920–24	New Zealand	80	75	93·7						1·1			1·0				0·1	1·8	
	Total .	249	198	79·5		6·4	5·4		2·4	11·2	1·2	7·1	6·9				0·1	1·8	
1925–26 to 1929–30	Australia .	168	87	51·8		8·4	6·1		2·3	4·9	3·5	26·4	10·7	4·0					
1925–29	New Zealand	57	42	73·7						2·5		1·3	0·4			8·5	0·9	0·8	0·7
	Total .	225	129	57·3		8·4	6·1		2·3	7·4	3·5	27·7	11·1	4·0		8·5	0·9	0·8	0·7
1930–31 to 1933–34	Australia .	162	126	77·7		2·0	5·5		1·9		2·8	13·1		2·8	0·9				
1930–34	New Zealand	62	60	96·7												0·2	0·5	0·6	
	Total .	224	186	87·5		2·0	5·5		1·9		2·8	13·1		2·8	0·9	0·2	0·5	0·6	

VII. Mutton and Lamb (million lb.)

Period	Exporting Country	Average Annual Exports	Average Annual Exports to: U. Kingdom Quantity	U. Kingdom %	South Africa	Canada	British Malaya	Gibraltar	U.S.A.	Hawaii	India & Ceylon
1904–08	Australia .	85	67	78·8	14·0	0·8					
	New Zealand	182	181	99·4	0·7						
	Total .	267	248	92·8	14·7	0·8					
1909–13	Australia .	151	143	94·7	2·3	1·7					
	New Zealand	227	226	99·5				0·2	0·1		
	Total .	378	369	97·6	2·3	1·7		0·2	0·1		
1920–21 to 1924–25	Australia .	81	76	93·8	0·1	0·2	1·0				0·4
1920–24	New Zealand	331	310	93·6		1·1			20·0	0·2	
	Total .	412	386	93·7	0·1	1·3	1·0		20·0	0·2	0·4
1925–26 to 1929–30	Australia .	82	74	90·2		2·0	1·1				
1925–29	New Zealand	301	299	99·3		0·2			1·0		
	Total .	383	373	97·4		2·2	1·1		1·0		
1930–31 to 1933–34	Australia .	154	148	96·1			1·0	0·2			0·5
1930–34	New Zealand	404	403	99·7							
	Total .	558	551	98·7			1·0	0·2			0·5

I. WOOL

AVERAGE ANNUAL IMPORTS INTO THE UNITED KINGDOM AND PROPORTIONS THEREOF FROM AUSTRALIA AND NEW ZEALAND (million lb.)

	1904–08	1909–13	1920–24	1925–29	1930–34
Av. Ann. Impt. into U.K.	664	801	852	791	858
" " " " from Australia .	274	300	356	252	283
" " " " from New Zealand	148	181	193	185	205
Av. % Imptd. Ann. to U.K. from Australia .	41·2	37·2	41·7	31·8	32·9
" " " " from New Zealand	22·2	22·4	22·6	23·3	23·9
" " " " from Australasia	63·4	59·6	64·3	55·1	56·8
Av. Ann. Amt. from Australia retd. U.K.	109	131	150	154	212[1]
" " " New Zealand " "	125	141	150	117	122[1]
" " " Australasia " "	234	272	300	271	334[1]
Av. % Impts. from Australia retd. U.K. ..	39·8	43·7	42·2	61·0	73·7[1]
" " " New Zealand " " .	84·4	77·9	77·7	63·2	60·4[1]
" " " Australasia .. " .	55·2	56·5	54·6	62·0	68·0[1]

[1] 1930–1933

II. WHEAT

AVERAGE ANNUAL IMPORTS INTO THE UNITED KINGDOM AND PROPORTIONS THEREOF FROM AUSTRALIA (million cwt.)

	1904–08	1909–13	1920–24	1925–29	1930–34
Av. Ann. Impt. into U.K.	95·34	103·34	101·07	105·18	108·98
" " " " from Australia .	8·40	11·74	14·38	12·66	22·22
Av. % Imptd. Ann. to U.K. from Australia .	8·80	11·40	14·20	12·00	20·30

III. BUTTER

AVERAGE ANNUAL IMPORTS INTO THE UNITED KINGDOM AND PROPORTIONS THEREOF FROM AUSTRALIA AND NEW ZEALAND (1000 cwt.)

	1904–08	1909–13	1920–24	1925–29	1930–34
Av. Ann. Impt. into U.K.	4229	4167	3975	5996	8357
" " " " from Australia .	502	621	662	808	1620
" " " " from New Zealand.	288	304	856	1237	2164
Av. % Imptd. Ann. to U.K. from Australia .	11·8	14·6	16·6	13·4	19·4
" " " " from New Zealand	6·8	7·3	21·5	20·6	25·8
" " " " from Australasia	18·6	21·9	38·1	34·1	45·2

IV. CHEESE

Average Annual Imports into the United Kingdom and Proportions Thereof from New Zealand (1000 cwt.)

	1904–08	1909–13	1920–24	1925–29	1930–34
Av. Ann. Impt. into U. K.	2463	2360	2746	3009	3006
„ „ „ „ from New Zealand	149	462	1342	1571	1939
Av. % Imptd. Ann. from New Zealand	6·0	19·4	48·9	52·2	64·5

V. BEEF

Average Annual Imports into the United Kingdom and Proportions thereof from Australia and New Zealand (1000 tons)

	1904–08	1909–13	1919–23	1924–28	1929–33
Av. Ann. Impt. into U.K.	262·57	375·8	525·44	637·64	571·49
„ „ „ „ from Australia	3·68	42·43	51·52	59·3	49·98
„ „ „ „ from New Zealand.	12·99	17·5	34·67	24·12	20·99
Av. % Imptd. Ann. to U.K. from Australia	1·4	11·2	9·8	9·3	8·7
„ „ „ „ from New Zealand	4·9	4·6	6·5	3·7	3·7
„ „ „ „ from Australasia	6·3	15·8	16·3	13·0	12·4

VI. MUTTON AND LAMB

Average Annual Imports into the United Kingdom and Proportions thereof from Australia and New Zealand (1000 tons)

	1904–08	1909–13	1919–23	1924–28	1929–33
Av. Ann. Impt. into U.K.	203·5	252·98	286·86	268·22	326·59
„ „ „ „ from Australia	27·78	64·04	56·9	29·08	53·99
„ „ „ „ from New Zealand	86·40	104·36	148·3	131·18	171·59
Av. % Imptd. Ann. to U.K. from Australia	13·6	25·3	19·8	10·8	16·5
„ „ „ „ from New Zealand	42·4	41·2	51·7	48·9	52·2
„ „ „ „ Australasia	56·0	66·5	71·5	59·7	68·7

Notes to the Tables on pp. 166 *and* 167—

Tables I to IV are calculated from the Annual Statement of Trade and Navigation for the United Kingdom. For the three post-war periods the calculations in Tables V and VI are based on the figures supplied by the Imported Meat Trade Association.

The abbreviations in the Tables stand for—

Average Annual Imports into the United Kingdom.
Average Percentage Imported Annually into the United Kingdom.
Average Annual Amount from . . . Retained in the United Kingdom.
Average Percentage of the Imports from . . . Retained in the United Kingdom.

co-operative to achieve greater uniformity and reliability, then the middlemen's task may become simple enough for him to assume it himself.

Since the war revealed his limitations, the middleman has come more and more under fire. So far as his services are said to add unduly to marketing costs, the complaints would appear to be capable of some measure of statistical verification. Yet any one who has endeavoured to analyse these costs or who has considered the results achieved by Royal Commissions or by business research departments of American universities will cherish no illusions as to the degree of success that can be attained. The nearer we get to the consumer, the more complicated the problems become, and any estimate of costs over the whole field of distribution is impossible. The producer complains not only that there are too many steps in the distributive process, but also that there are too many middlemen of the same type at each stage. As to the first, it is argued that sub-division of function in marketing is analogous to division of labour in a manufacturing concern. The analogy is, however, by no means perfect, for the middlemen act as independent units, each mainly concerned for its own interests, whereas the manufactory is usually under unified control. Though it is necessary to pay for services, whether rendered by an integrated enterprise or by separate agencies, the measurement and control of costs is more directly possible in the first case. They may be higher or lower than would otherwise obtain, but at any rate it is clear how and why they are incurred. It is a fact that this consideration weighs as much with producers as the possibility of effecting economies by the reduction of the number and of the remuneration of middlemen. As to the second point, that there are too many middlemen of the same type at any one stage, it is no answer to say that competition will have driven out the inefficient and will have left the field to the efficient. Every new middleman who engages in trade on his own account will be as likely as not to attract away at least enough business from the old ones as to force them to raise their margins somewhat, and then the newcomer will perhaps be on level terms with them. The notion of sub-marginal men who are driven out of production or trade by the forces of

competition does not appeal to the farmer, who does not believe that the principle works in practice.

The farmer is also critical with regard to the share of the risk borne by those who pass on his product to the consumer. A great deal of confusion arises from the assumption that risk-bearing is a function pertaining almost wholly to the commercial sphere. Those who extol the services rendered in this connexion by the investor and the business man are apt to forget that the farmer, like the wage-earner, assumes risks that are every whit as great, if not greater. The intermediary can wait and see what fortune attends the producers' efforts and size up the relation of supply to demand before he embarks a penny on the product. He can protect himself by reducing his offers, if the season has been a bounteous one, leaving the farmer perhaps ruined by plenty. Some intermediaries secure effective protection all along the line. The device of constructive speculation was not invented for the farmer, but for the trader. The commission agent does not appear to bear any greater risk than the wage-earner and may, at the worst, simply find himself unemployed. Merchants who actually purchase stocks assume a greater degree of risk, but they are now few and are safeguarded to some extent against loss from defective quality. It may be true that efficient marketing should reduce all risks to a minimum, but it is none the less true that when risk threatens to increase, the middleman can far more readily divest himself of it than can the farmer.

Concentration and combination on the buying side is another development which has not escaped the producers' attention. For example some 3500 shops in the provision trade in Great Britain are operated by Unilever Ltd. and about 1000 by International Stores Ltd. While these figures may appear trifling when compared with the host of small grocers, estimated at 200,000, there is no doubt that the multiple-shop concerns are able to exert a powerful influence upon prices. Though the "meat trust" bogy has been largely destroyed, it is not certain that wool auctions are always free from the operations of what are tantamount to buying "rings." It is true that a mistake in buying or selling is multiplied by the size of the large concern, but these have an ability to correct their mistakes which is not vouchsafed to all.

Organization of buyers appears to the farmer to require organization of sellers, just as during the war.

Producers have had little to say until lately about the monetary policies that have contributed to their present difficulties. That is not surprising, not only on account of the technical difficulties of the subject, but also because Australia and New Zealand can have very little control over the monetary policy pursued by the great banking systems.

What the farmer will do further regarding all this remains to be seen. It seems clear that whatever he does do will result in loss for a time, since every radical change in the working of the economic system involves a tribute to the vested interests displaced as well as the purchase of experience. Yet if he is minded to take a new road, neither the propaganda of those who have no interests to serve but their own, nor the nice demonstrations of traditional economic theory will stay the farmer's steps.

2. The Marketing of Wool

Natural conditions have determined that Australia, and to a less degree New Zealand, shall be large producers of wool. The pressure on the soil is slight, competition from alternative forms of rural enterprise is unlikely to bring about any considerable reduction in sheep numbers, and over a large extent of Australia the land and herbage are suited for nothing so well as the production of merino wool. Australia may lack the ability to produce those fodders which are so great an asset to the Argentine meat trade, but the vegetation of her hinterland is more adapted to the depasturing of sheep than is, say, that of South Africa. Yet local conditions are so varied in Australia that there is necessarily a wide range in the qualities of the wool. Large numbers of sheep, too, are kept upon improved land, often in association with some other branch of farming, such as wheat-growing and even dairying. Though the wools vary considerably from area to area, the quality from each is fairly well defined and buyers are often able to determine upon inspection, not only where the wool was grown, but also the climatic conditions that prevailed during the growing season.

Australia's predominant position may be gauged from the

fact that she produces one-fourth of the world's wool[1] and that her share in the world trade in wool is no less than one-third.[2] Any increase in the production of crossbred sheep and lambs for meat is not likely to affect greatly the absolute amount of merino wool clipped since that wool comes mainly from areas where conditions are unfavourable to the meat sheep. New Zealand, on the other hand, produces very little merino wool, as sheep are kept for their joint product. The bulk of the clip is medium crossbred, a grade for which prices never rule very high. The total production is about one-thirteenth of the world output and the exports amount to about one-eleventh of the whole international trade.[3]

The Australian Wool Market. Three bodies are concerned in the working of the wool market—the Australian Wool Growers' Council, the National Council of Wool Selling Brokers, and the Wool Buyers' Association. The first two bodies collaborate in arranging the selling programme and also interchange views upon other matters of mutual concern. The selling programme is drawn up at an annual conference in one of the capital cities in June. The conference considers the estimated number of bales that will be offered for sale and fixes the proportion, usually more than half, that is to be disposed of before the end of the calendar year. The dates of sales and the period over which they are to be spread are also decided upon and the quantities to be offered in each centre and at each series of sales are tentatively determined. The brokerage houses share in the allocations in accordance with the quantities which they have in store about the time of sale. It may be necessary, owing to the state of the market, to vary the rate of selling, a course which has been taken during particularly depressed periods in the past few seasons. Such modifications are, however, to be deprecated. In the first place, the method of procuring them is cumbersome, since the national organization cannot act swiftly; in the second, any special

[1] *Statistical Year Book of the League of Nations*, 1932–33, gives: 1931—World production, 1664 metric tons; Australia, 449 metric tons.

[2] See *International Year Book of Agricultural Statistics.*

[3] For the 1933–34 season, 82 per cent of the Commonwealth clip and 2 per cent of the New Zealand clip was merino. For the two Dominions, 66 per cent of the output was merino.

restriction of offerings tends to have the very effect it is desired to avoid, since buyers may suspect that supplies are heavier than anticipated. The object of the normal regulation of offerings is not merely to steady the market and influence prices, but to ensure the orderly disposal of the clip in such a way as will be advantageous to all the interests concerned. Unduly heavy catalogues make it impossible for buyers to value and inspect the wool thoroughly and this results in irregularity in the competition at sales. On the other hand, it is fully recognized by the growers and brokers that there is nothing to be gained by any arbitrary restriction of offerings at those times when the market appears to be oversupplied. The wool must in any case be disposed of in the end and, under the conditions of demand which have prevailed for some years past, the accumulation of stocks must be avoided. A policy of free selling is the only cure for want of confidence among buyers due to the feeling that supplies are too heavy. Still, a progressive fall in prices tends to destroy confidence whatever the selling policy, since there is no saying when the bottom of the market has been reached.

The conditions of sale provide that bids must advance by not less than ¼d. per lb., that wool has to be removed from the warehouse within three days of sale (in default of which additional charges accrue), and that all disputes regarding faults, errors of description, weights and tares of packages must be settled before then. Purchasers are safeguarded against false packing.

The organizations of the buyers and of the selling brokers agree mutually upon the rules that shall govern the dealings. Sample bales are required to be shown on properly lighted top floors only and the width of the inspection alleys is specified. The percentage of sample bales to be shown from each lot is also laid down. Three bales are shown when lots are of five to ten bales; 20 per cent of lots of over ten and under twenty bales; 15 per cent of lots of twenty bales and over and under 100 bales; and 10 per cent of lots consisting of 100 bales or more. The sample bales are drawn at random and when all the bales in any lot do not carry the original brand of the grower, a greater percentage than that prescribed above must be shown. Lots of three bales and under are catalogued and sold separately, and,

if misbranding or false packing be discovered beforehand, the lot concerned is withdrawn from sale. Re-packed and re-conditioned wool must be specially designated.

The National Council of Wool Selling Brokers fixes the brokerage commission and also the charges for storage and insurance. The rates are kept down, partly by the possibility of competition among the proprietary houses and partly by the existence of co-operative broking concerns.

The Growers' Share in Marketing. The work of the grower consists in shearing, classing, baling, and dispatching the wool to the brokers' stores. When the flocks are large, the organization of the work of shearing, etc., reminds one rather of large-scale factory production than of rural enterprise. In shearing, the belly wool and locks are taken off first and the remainder of the fleece is shorn in one piece. The fleece is "skirted" by the wool-classer, i.e. such parts as are not of the average quality of the whole are trimmed off. The large stations are able to employ expert classers, who grade the main body of the wool into "firsts," "seconds," "combing," and "clothing."[1] The locks, pieces, belly, and fleece wools are all packed separately and the bales marked with the station brand and the word and lettering denoting the quality. There are, of course, many cases in which the classing is imperfect from the buyer's point of view, but the process must not in any case be carried too far and embrace the work of sorting which belongs to users and merchants. On the whole, it is true to say that of all the wool which enters into world trade the Australasian clips are the most carefully prepared for market. The classed wool is packed in bales which are filled in a wool-press.[2] These woolpacks, which weigh about 11 lb. and cost about 5s. each, are made of jute, a material which is not thoroughly satisfactory, but for which no suitable substitute has yet been found. Wool

[1] For details of classes, see C. E. Cowley—*Classing the Clip*, p. 186. Sydney, 1928.

[2] A "bale of wool," to be accepted as such, must be packed in a recognized woolpack, be in a shapely, shippable condition, and weigh not less than 200 lb. for greasy and 100 lb. for scoured wool. If under the acknowledged weight, the package is known as a "butt." Wool is also delivered to brokers in bags of various sizes. A "fadge" is a parcel of wool contained in a number of bags opened out and sewn together in the form of a kind of bale. The tare of bags and fadges varies.

users complain that the fibre gets among the wool and causes loss during the process of manufacture. However, it is necessary to provide a pack of stout material, as the filled bale may weigh over 300 lb. and as it is subjected to much rough handling. For this reason, experimental packs made of wool, paper and wire, etc., have proved unsuitable, quite apart from their increased cost. The jute in wool trouble could be minimized by the exercise of greater care in the opening of bales for display and sampling.

Very little wool is auctioned in the scoured or washed state in Australasia,[1] since the balance of economic advantage is against the practice. Where land transport over considerable distances is involved, important savings in freight might be secured by washing wool beforehand, since its weight may be reduced by 50 per cent or more. Some New Zealand wool, too, becomes discoloured after a long sea voyage in the grease. Scoured wool is, however, liable to become mildewed or otherwise damaged owing to the absence of the natural protection. In any case, users claim that greasy wool can be more readily sorted to the requirements of manufacture. One of the arts of top-making consists in the blending of different sorts of raw wool in the grease and, while this is so, buyers are not likely to be attracted by offerings of scoured wools.

The Work of the Selling Brokers. Some 90 per cent of the clip is disposed of at auction sales in Australia. Of the balance, part is shipped directly to London and a negligible proportion is sold privately by the growers. This country wool buying is to be deprecated, even though some of the wool is purchased by speculators and eventually reaches the auctions. Occasionally, buyers for export operate in the country, usually because they desire to obtain certain qualities quickly for their principals, who are unable to wait until the wool appears at the auctions. Growers are attracted by the advantage of quick sale, yet their wool does not meet with the full competition of buyers and they are not assured of getting the full market value on the day. They may, of course, realize more on occasion, but they may be involved

[1] In 1933–34, 6 per cent in Australia and a negligible quantity in New Zealand.

in the risk of loss from the buyer's default, a risk which the auction system eliminates. Country wool-buying is really of small amount,[1] but any practice which threatens the supremacy of the auction sales must be guarded against. Accordingly, the Wool Buyers' Association has agreed on behalf of its members to refrain from private buying, so long as catalogues are framed with due consideration for their requirements.

There are a few co-operative broking houses, but the great majority, and the leading ones, are joint-stock concerns, much of whose capital is owned by the growers themselves. Wool-broking is a highly concentrated business.[2] Over the whole of Australasia, only sixty-four firms participate, and many of these handle quite small amounts as a sideline to other activities. In the 1930–31 season, two firms together undertook over 25 per cent of the Australasian wool-broking business, or a total of over 750,000 bales, and one of the firms dealt with nearly 500,000. In the United States, some 400 central dealers, as well as a large number of local buyers, are engaged in disposing of a clip one-third the size of Australia's.[3] Included in the work of many of the Australasian wool-broking houses are the financing and operation of sheep stations, the furnishing of station supplies, and the selling of land and livestock. Not all the brokers actually sell wool, but they insure it, make advances against it, and own and operate warehouses.

The selling brokers prepare the catalogues and display the wool on the show floors for buyers' inspection. The in-weights are used as the basis of payment after sale, though buyers may demand out-weights, if they choose. The system normally works in their favour, since the wool is relatively dry on arrival and may absorb moisture at the coastal selling centres. The clips from the large stations are easy to deal with, because adequate classing has been effected and the wool divided into lots consisting of even lines of each description. Yet some growers may desire to subdivide a line into a number of lots, thinking perhaps thereby to increase the competition within the range, though at the same

[1] The highest estimate in recent years is 75,000 bales in N.S.W.
[2] See statistics appended to this section.
[3] Walker—*Some Factors Affecting the Marketing of Wool*, p. 42.

time adding to the work and cost of selling. Where the clip is small, the grower may leave the work of classing entirely to the broker or he may partly class the wool and have the broker complete the process. In the former case, the wool of several clips may be pooled, each class being binned in order to make larger lines.[1] The growers share in the receipts according to the proportions of each class of wool that they have contributed. Another method employed to secure large lines is to combine small lots of the same quality and offer them together. This practice, which is known as interlotting, does not involve the unbaling of the wool. Wool which has been re-classed by the brokers usually attracts keen competition, since buyers are able to rely on the expertness of the work. In Queensland, the Department of Agriculture undertakes the work of classing small clips at very low cost. Growers are expected only to separate locks and belly wool, to keep merino and crossbred wools apart, and to remove valueless portions of the fleece. The rest of the work is performed at a charge of 10s. per bale, which includes insurance while the wool is in the Department's hands.

The quantity of wool that can be disposed of on any one sale day depends more upon the number of lots into which it is divided than upon the total number of bales offered, and brokers must have regard to this fact in preparing their catalogues. These give details concerning the number of bales in each lot, the description of the wool, and the station brands. Despite the disadvantages, the number of small lots is considerable, and may even exceed the number of large lots. "Star lots,"[2] as the small lots are designated, do not bring such good prices, as a rule, as longer lines. Buyers consider that they are unable to estimate the yield so accurately when lots consist of less than ten bales, and they must protect themselves accordingly. On the other hand,

[1] But this is said to lead to "lot splitting" by buyers who agree not to compete against one another. The Auctions (Bidding Agreements) Act, 1927 (U.K.), prohibits the practice of combining to diminish competition, but such a practice would be difficult to detect. *Bona fide* agreements of joint purchase are not, of course, affected.

[2] The term really has no application in Australia, where these lots are either listed separately in the catalogue or in a special catalogue. The name originated from the practice of designating lots of less than three bales by a Maltese cross in the London catalogues in which the "Star lots" are not separately listed.

"Star lots" often consist of ends of ranges that could not in any case bring full prices, as they have to be sorted by merchants.

The order in which wool comes up for sale is strictly determined. The general principle is that it shall be sold in the order of arrival at the broker's store. It is necessary to have a definite understanding, as growers are usually anxious that their clips shall be disposed of as soon as possible after shearing, though some may prefer to wait, if they think prices will improve. Some modification of the rule regarding order of sale has been made in New South Wales since the 1928–29 season. If the rule is strictly observed, it may not be possible to provide as wide a selection of wools as current market requirements demand. Thus buyers who are seeking "free" wools before Christmas may find only burry wool offering and so be left with nothing to do for the time or be compelled to make private purchases in the country. It was desirable, therefore, to give a measure of preference to certain wools. Accordingly, the State is divided into zones, corresponding to the early and late-shearing districts, and for the purposes of priority of sale a separate group, limited to 60,000 bales[1] of the later-shorn wools received before Christmas, is formed. The wool in this group comes up for sale in the order of its arrival at the warehouses, simultaneously with the general stock. After the end of the year, the principle of sale in order of arrival is reverted to for all wools. The result of the arrangement is that buyers have a selection of fine, "free" wools placed before them early in the season, instead of having to confine their attention in the main to the early-shorn and burry sorts. The scheme has been modified since its inception, but represents on the whole a wise attempt to deal with a difficult marketing problem. Some growers have abused the provision by hauling their clips to railway stations within the preferred zone and the graziers' organization actually carried (but rescinded) a motion against continuance. The extent of the delay to other sellers does not exceed seven or eight selling days or less than a fortnight at most. It is possible for a grower to have the sale of his clip deferred by arrangement with the broker, but this is rarely done. All wool must actually be in store

[1] Reduced to 40,000 bales for 1932–34; but increased to 100,000 for 1934–35.

before it is catalogued and at least 20 per cent of the clip of any one grower must be to hand in order to constitute an entry.

The selling season extends from about September until May, covering a period of some nine months and usually beginning in Sydney. The date when sales can be successfully begun is largely determined by climatic conditions and any attempt to bring the opening date forward when shearing happens to be late results in fiasco. Clearing-up sales may be held in the winter, especially in Brisbane, but they are not important. Prior to the war, when the selling season lasted about six months, users were compelled to carry stocks to a far greater extent than is now necessary. The extension of the season has enabled them to save interest, avoid some of the risk of price-fluctuation, and buy for known requirements. So that, although buying may be more from hand to mouth than was formerly the case, this is not to be taken as a sign of lack of confidence in future market movements. The only danger from the user's point of view is that widespread drought might make it impossible for him to cover his requirements quickly at any time. It is unlikely that the selling period will be further extended and all the year sales arranged as in London, since buyers usually have to return to their home countries in the off-season to consult their principals and make arrangements for the ensuing season. During the period, the dates of the sales are fixed so as to avoid those at one centre clashing with those at another. Hence it is possible for buyers to attend at more than one centre, though distances are so great in Australia that the expense and fatigue involved are considerable. It is not possible under the circumstances for individual buyers to maintain personal contact with all the selling centres, but the arrangements are such as to minimize the risk of irregular competition.

When delivering his wool, the grower may indicate to the broker the reserve price which he places upon it and instruct that it be sold for not less or at or near that valuation. This procedure is not altogether satisfactory, since it is very difficult for the grower to determine the value of his wool. Current realizations or the price secured by a neighbour can be no guide in a fluctuating market. If the value is set too high, as is sometimes done in the belief that the broker will thereby be driven to make special

efforts, and the wool passed in in consequence, buyers tend to ignore it when it comes up for sale again, especially if full value on the day has already been bid for it. Under the circumstances, the grower is well advised to leave the fixing of price limits to the selling broker. Whatever course is taken, there ought to be some degree of elasticity in the limits determined upon, since even an expert valuation, made near the day of sale, will not necessarily bear any close relation to prices bid in the auction room. In fixing reserves, growers should have in mind the lowest price that they would accept under any circumstances, rather than the highest price they hope to realize under the prevailing conditions. Wool may be offered only once more in the same season after being passed in and may not be transferred to another broker. If it is not sold when offered a second time, it must be disposed of privately or shipped to London. The last bidder has an option over passed-in wools, so far as the negotiation of a private sale immediately after the auction is concerned.

The Operations of Wool Buyers. The number of wool buyers is necessarily limited owing to the very expert nature of the work. The buyers fall into various classes according to their relation to merchants and users, though no individual need confine his attention to any one type of business. For instance, some buyers make purchases for their own firms of manufacturers, some buy on commission to the order of users and merchants, and yet others operate on their own account, cabling offers to clients and placing the wool with them after it is bought. The expertness of the buyers consists in their ability to estimate within 1 per cent from inspection of wool in the grease what the clean, scoured yield will be. All the important wool-using countries are represented on the bench of buyers, but the relative strength of the competition varies. In recent seasons, Continental and Japanese buying has been the main support of the market, especially in the early months, English operators frequently finding prices too high. During the 1930–31 season, the depreciation of the Australian exchange and the restrictions upon exchange dealing led to a considerable amount of "exchange" buying on behalf of individuals desiring to secure the means of obtaining funds in London. While such operations lend a certain degree of support

to markets for the time, they may have undesirable reactions, since legitimate traders can withhold their bids in the expectation of having a second chance of the wool when it comes up for re-sale in London. It is interesting to observe in this connexion that, in the early years of the Australian auctions, merchants quite frequently purchased wool which they used for the purpose of effecting payment in London for goods which they had imported.

The buyers are in continuous contact with centres of consumption and are thus kept informed from day to day of requirements and of price movements. As a rule, they operate on "limits," i.e., the price which they are able to bid for any given quality on behalf of their principals has an upper limit which may not be exceeded. Some may hold higher limits than others and the wool is, of course, knocked down to them. On occasion, buyers may have instructions to buy "at best," and, for the time, prices tend to rule high.

Wool is usually bought for prompt shipment. British buyers are most favoured in regard to freight space, though the number of cargo liners which include Continental ports is now considerable. On the other hand, shipments to the East and elsewhere may be greatly delayed. The significance of prompt shipment is partly that buyers are in many cases not in a position to pay for the wool until they are in possession of the shipping documents. As the demand for warehouse accommodation is seasonal and the pressure is great at certain times, it is necessary to clear the stores quickly after each sale. Buyers have three days in which to secure samples from the lots they have purchased and the bales are then sewn up and put into proper shipping order. The wool must be paid for within fourteen days of sale. Since every bale is not shown, sale is to some extent by sample and the buyer may demand an arbitration if he thinks the bulk does not correspond with the sample. If the arbitrators decide in his favour, the sale is cancelled.

The Wool Auctions. That Australian wool should be sold by auction seems as natural and inevitable as the production of the commodity in the Commonwealth. It conforms to all the conditions required for successful sale by auction, since the supply is large enough to attract buyers in large numbers and from a wide area. The limitation of the number of selling centres has the

further advantage of concentrating the supply at relatively few points. Where supply is inadequate or irregular in amount, buyers will be few and competition so uneven as to jeopardize the success of the sales. It is on this account that any diminution in the quantity coming to auction through the selling of wool by private treaty should be guarded against. Indeed, where private sale is common, auctions either do not exist or cannot survive, since buyers will not attend merely on the chance that sellers will resort there. The fact that there are few wool users in Australia itself is favourable to the auction system, since English and Continental manufacturers would find it inconvenient, as well as expensive, to maintain staffs of buyers in direct contact with the producers, as is done, say, in England. It is, indeed, frequently the case that commodities raised at a great distance from the centres of consumption are disposed of by auction, rather than by private bargaining. It is not necessary that the supply should be produced by relatively few growers, yet such concentration in the control of supply is an advantage from the auction point of view. Thus, though there are thousands of growers in Australia who each produce only a small quantity of wool, there are also many large individual clips.

For the purposes of sale by auction, it is not essential that a high degree of standardization of the commodity should be effected since each lot is inspected by the buyers before sale. Some amount of grading can, however, be undertaken with advantage before the commodity comes to market and is usually desirable from any point of view. Even at its best, the classing of wool may be but an imperfect indication of its quality, yet it largely obviates the need for a merchant intermediary who would otherwise be required to buy those portions which users found unsuited to their requirements. Classing, therefore, enhances prices, as buyers do not have to allow to the same extent for loss in disposing of off sorts. The existence of recognized grades has the further advantage of assisting the smooth working of the market, even though the condition of wool varies, as it must do, from season to season. Comparison of prices from sale to sale and as between one market and another would otherwise be difficult, if not impossible.

Wool auctions are characterized by the extraordinary rapidity with which sales are effected. With catalogues amounting to 10,000 bales or more to be sold in a few hours, the necessity for speedy making and taking of bids is obvious. Only the fact that the auctioneer is acquainted with almost all the buyers present enables this to be done.

The New Zealand Wool Market. The conditions under which wool is sold in New Zealand are in most respects similar to those obtaining in Australia. About 80 per cent of the clip is disposed of locally and the balance shipped to London. It is proposed to refer here only to special points of difference between the two markets. The regulation of offerings by an official body, which was instituted in the disturbed years following the war, still continues in a modified form.[1] The New Zealand Wool Committee draws up the selling programme and determines the maximum amount to be offered at any one sale. Sales by auction or otherwise are prohibited without a permit from the Committee and the giving of an undertaking that the auctioneer will faithfully adhere to the Committee's directions. In recent years, the quantity offered at any one sale has been limited to 30,000 bales, and has been as low as 25,000. On occasion, limitation has proved unnecessary as, with falling prices, growers have tended to hold back wool of their own accord. In any case, the amounts prescribed are adequate. Buyers have three days in which to inspect and value the wool and one day in which to purchase it. With a limited selling season and a fairly heavy catalogue, a certain amount of night selling is necessary.

Since the New Zealand clip consists almost entirely of crossbred wool and the number of small lots is greater, there are not so many classes as in Australia. Classing, re-classing, and interlotting by brokers[2] is more widely undertaken, interlots consisting, as a rule, of not less than seven bales. Wool reclassed by brokers is sold under their special store brands. The selling season is limited to about five months (December to middle of April) and the number of centres is restricted. Proposals are

[1] See Board of Trade (Wool Industry) Regulations, *N.Z.Gazette*, 15/1/25.
[2] Between 30 and 40 per cent of the clip in New Zealand is re-classed by brokers.

continually being made for extension in both directions. It is argued that, by continuing the sales until May, night selling would be avoided, buyers would not be so rushed, and users and merchants would be under less necessity of carrying stocks. The buyers themselves, however, are not altogether favourable to the extension, as they wish to spend a considerable part of their time elsewhere. It is urged that if growers desire to spread out the period over which the season's wool is disposed of, they should consign some to the July and September sales in London. The plea for additional selling centres is resisted, since it would involve more travelling for the buyers who, as things are, have to purchase some half million bales in eight centres in about five months. Any increase would be inimical to the success of auction sales. In any case, the number of centres is high in relation to the size of the clip, and is greater than in Australia, where there are only seven, if Tasmania be excluded.[1] One important producing area (Gisborne and the East Coast districts to the north) has no selling centre, and in some years as much as 50 per cent or more of the wool is shipped directly to London in consequence.

The terms of sale in New Zealand are similar to those in force in Australia, except that wool is settled for on out-weights. That the New Zealand market is more dependent upon the British buyer is evidenced by the fact that three-fourths of the clip is exported to the United Kingdom as compared with one-third of the Australian. The predominance of the English buyers often leads to complaints of the existence of "rings," especially when they hold lower limits than their Continental rivals and stand out of the bidding in a body.[2] The Bradford buyers are quite within their rights, but they expose themselves to criticism when their trade papers describe prices as "ridiculous" or when

[1] The centres are in Australia: Sydney, Brisbane, Melbourne, Geelong, Albury, Adelaide, and Perth. A small amount of wool has been disposed of at Ballarat and Newcastle, and sales are also held at Hobart and Launceston. In New Zealand: Auckland, Napier, Wanganui, Wellington, Christchurch, Dunedin, Timaru, and Invercargill. There are some thirty sales during the New Zealand season, about equally divided between the two islands.

[2] Somewhat similar complaints are made in Australia, where it is said that buyers get to know each other's limits and that competition may be restricted accordingly.

they are compelled to buy later on at enhanced values, as sometimes happens. No one can say whether the English wool buyers judge market conditions and tendencies as well as their competitors, but it has been stated that Japanese cotton spinners buy the qualities they require better than the English,[1] and the point may be worth raising with regard to wool.

The London Wool Auctions. It is necessary to consider briefly the working of the London wool sales, not only on account of the large quantities of Colonial wools disposed of in that centre, but also because of its importance in setting the level of values elsewhere. It is the only city in Europe which serves as a primary market for Colonial wools and its predominance is entirely owing to the fact that it has been able to attract, and continues to attract, the great bulk of the supply not already disposed of. The work of selling is concentrated in few hands, the Associated London Selling Wool Brokers comprising only nine firms. The exclusiveness of the business is perhaps explained by the peculiar quality of the services rendered. The London wool brokers enjoy a unique and deserved reputation for integrity and their relations with their clients are rendered amicable by personal qualities which middlemen do not always exhibit.

The organization of the market differs somewhat from that in Australia, where the brokers combine the function of agent for the owner with the work of selling, though they do not deal in wool on their own account nor undertake buying operations on commission. Wool for sale in London is consigned to banks or merchant houses which may have already advanced against it or may simply undertake the work of shipment and arranging sale on behalf of consignors. These agents must sell through the brokers. The merchant houses in London include seven firms that are among the leading selling brokers in Australia. There are many buying brokers, individuals and firms, and the London selling brokers even engage in this work. It might be thought that this combination of function would affect the interests of clients prejudicially, but this cannot occur in practice, since there is no connexion between the buying and selling sides of the brokers'

[1] See B. and H. Ellinger: "Japanese Competition in the Cotton Trade." (*Journal of the Royal Statistical Society*, 1930, p. 185.)

business. In any case, the buyer operates subject to conditions imposed by the client and is only one of many bidding at the sale.

The London selling brokers do not undertake the work of warehousing wool, which is stored in sheds provided by the Port of London Authority and by a few private firms. The accommodation is ample, since there is room for upwards of one million bales and for 40,000 on the show floors at one time. There is no seasonal pressure on space as in Australia. In London, all the bales of each lot are shown and buyers have access to them early on the day of sale. When the wool reaches the stores, a 1 lb. sample is drawn from each bale by the warehousekeepers and forwarded to the selling brokers who make an estimate of the value. Clients are advised accordingly and instruct the brokers to sell at or near the valuation, or else fix limits for themselves. Excellent judgment is shown by the brokers as a rule in determining reserves. For instance, by refusing to sell at very low prices, they have at times revealed that users had made sales without being covered and have compelled them to bid higher.[1] The warehousekeepers weigh the wools off as soon as the buyers have finished valuing for the day's sales and bring another ten or twelve thousand bales up to the show floors ready for inspection next day.

The London sales are not seasonal, but are held at regular intervals throughout the year. The programme is drawn up by the associated selling brokers. There are six series of sales, each beginning on a Tuesday and lasting a fortnight, with five selling days in each week. The conditions of sale, which have grown out of long-standing and well-recognized customs of the trade, are also determined by the brokers. The catalogue shows for each lot the ship by which it arrived, the warehouse where it is on view, the type of wool, and the marks and number of bales. The auctions in Australia and London are conducted on similar lines, practically all the wool-using countries except Japan being represented on the London bench of buyers. When wool is passed in, the last bidder has the option, for half an hour after the close of the sale, of negotiating privately for the lot. Considerable quantities change hands in this way, sales being effected either

[1] See, e.g. *Times Trade and Engineering Supplement*, 30th May, 1931.

by buyers increasing their bids or by sellers reducing their limits. A certain amount of wool is also disposed of by private treaty. A great volume appears to be passed in at the London sales, judging by the difference between the amounts catalogued and those actually sold. The proportion may be as high as 25 per cent and may be due to the fact that there is no limit to the number of times wool may be offered at auction. This is a direct encouragement to speculators to re-offer wool time after time in the hope that it will ultimately meet with a keen spot demand from some quarter.

There does not appear to be any good reason why the London selling broker should not act also as agent for the consignor. As things are, the bank or merchant house which so acts may receive as much remuneration as the selling broker and the service performed may amount to very little more than the handing over of a set of shipping documents.

The importance of London as a selling centre has declined with the development of the markets in the producing countries. In 1895, the number of bales offered at auction in London exceeded one million and a half and was above a million each year down to the war. The amounts actually sold each year were practically constant for ten years down to 1914 at from 700,000 to 800,000 bales per annum.[1] The average quantities of colonial, South American, English, foreign, and low wools catalogued each year from 1925 to 1930 was 800,000 bales and the average amounts sold exceeded 500,000. Liverpool catalogued an average of 200,000 bales per annum during the same period and actually disposed of 150,000. These figures may be compared with the Australian market statistics. The number of bales sold annually in Sydney averaged over one million and Melbourne sales approach those of London for quantity and, if Geelong be added, exceed them. Disposals at Brisbane now average about 400,000 bales each season and the turnover at Adelaide, as well as at Perth, is greater than that of Liverpool.

The decline in the entrepôt trade[2] has, of course, been responsible for the change in London's position. British users, too, are

[1] M. T. Copeland—*Problems in Marketing*, p. 313.
[2] See table at end of this section.

now having wool shipped direct to ports near the manufactories, as the following figures show[1]—

UNITED KINGDOM IMPORTS AND RE-EXPORTS OF RAW WOOL
(million lb.)

Years	London		Hull		Liverpool		Other Ports	
	Average Imports	Average Re-exports	Average Imports	Average Re-exports	Average Imports	Average Re-exports	Average Imports	Average Re-exports
1895–99	547·8	230·8	32·7	7·6	81·9	37·9	53·3	60·5
1926 .	382·8	190·6	174·3	10·0	132·6	36·8	121·7	101·0

Another question that arises in this connexion concerns the amount of wool that is re-auctioned in London after having been sold in Australasia. Any direct estimate is impossible, but the quantity is probably not considerable. A rough calculation for the 1928–29 season gives the following results—

Australian Wool Exports Estimated as Bales . .	2,701,802	
10% shipped to London Unsold		270,180
New Zealand Wool Exports Estimated as Bales .	680,000	
20% shipped to London Unsold		136,000
Total shipped to London Unsold		406,180
Colonial Wool[2] Catalogued London— September, 1928 to July, 1929 (Bales) . .	562,087	
Colonial Wool[2] Sold London— September, 1928 to July, 1929		429,000

Low prices in Australia may induce speculators to buy there for re-sale in London. A small and variable quantity bought by Continental firms in the Commonwealth is sold again in London and wool users and merchants, both in England and on the Continent, may re-offer wool, if they are oversupplied, though their offerings usually represent unusable outsortings and re-conditioned or re-graded lots. Even if the amounts re-sold without unbaling are considerable, the practice is not necessarily to be

[1] Committee on Industry and Trade, Survey of Textile Industries (1928), p. 238.

[2] Including small amounts from the Cape and Kenya sufficient to account for the difference between Australasian wool shipped unsold and Colonial wool sold in London.

condemned, as fluidity of marketing organization is desirable. Buyers must be free to sell again, if they find they have overbought or if the value of their stocks appears likely to depreciate. Otherwise they will be chary of operating in the first instance, with harmful reactions on prices.

One further matter that is much canvassed is the relative advantages of London as compared with the Dominion markets. The question does not turn upon prices obtained, since buyers do not travel half-way round the world in order to pay more for wool, nor do growers dispose of their clips locally if prices rule higher abroad. It is urged that local realization means a quicker return and this is no doubt true in the majority of cases. However, wool (especially from Western Australia) may in some instances be sold as quickly in London as locally, if the grower has to wait unduly long at the Australian sales. It is further urged that, when wool is disposed of locally, growers can visit the stores, compare clips, get-up, and prices and thus secure valuable guidance as to breeding and preparation. Against this, it is urged that London provides a wider market, that buyers in Australia see only wool from certain areas and do not realize what qualities are available from other parts, though they might be able to use them. Sale in London means that all wool is concentrated on one spot, and that buyers not only see full ranges, but also come in contact with users of other types of wool which might after all be suited to their needs. This contention is weakened by the fact that a large proportion of the wool actually sold in London is inferior as compared with that offered in the Australasian markets, since buyers have, so to speak, had first pick there. In some states of competition, a larger selection of particular classes of wool is available at the Australian auctions, but this depends upon the policy of sellers for the time being. On the other hand, there is undoubtedly a special spot demand in London, which may return higher prices at times. The difficulties that small buyers experience in financing purchases in Australia must also be considered. They can make their financial arrangements with infinitely more ease in London, where they are able to purchase from hand to mouth at periodical sales, than they can when they have to buy ahead in Australia, with the possible

risk of having wool held up in transit. On the whole, it may safely be asserted that producers stand to lose should the London auctions cease to play an important part in the work of wool distribution.

Proposals for Improving Marketing Organization. The lack of formal marketing organization is characteristic of the wool trade everywhere. This fact has led to suggestions for the establishment of a futures market in connexion with Australian wool. In many respects, such as quantity, number of transactions, and durability, wool fulfils the requirements of a commodity suitable for profitable exchange dealing. It is unnecessary, however, to dwell on the fact that it lacks one vital quality—homogeneity. The very unequal prices bid for sorts between which there is only a very slight difference in quality is further evidence that it is not adapted to future trading, since the possibility of substituting one grade for another is extremely limited. Such futures markets as have been established (e.g. on the Continent) trade in fact in partially prepared wools (tops) and the record of their operations is not such as to encourage a more widespread adoption of their methods. Some advocate the Argentine method of selling under which standard qualities on a guaranteed yield basis are offered. Yet it is not clear that this system could be applied with success to the Dominion clips.

There has developed recently, however, a tendency towards international co-operation for the improvement and standardizing of selling methods and the co-ordination of sales policy. An Empire Wool Conference, at which Australia, New Zealand, and South Africa were represented, was held in Melbourne in June, 1931. Though the conference declared against any scheme of arbitrary price control, it desired to promote uniformity in market organization. Such a development would facilitate the dissemination of market information and make for closer co-ordination between the primary auctions and consuming centres. More recently a proposal for an Imperial Wool Council, with subsidiary bodies in the Dominions and in Britain, has been made. This body would endeavour to promote the sale and use of wool and would serve as a clearing-house for research, publicity, and the improvement of marketing organization. That such a body

could wield an enormous influence is evidenced by the fact that some 80 per cent of the world's sea-borne trade in wool is from British countries. But this very fact might render co-operation with the International Wool Federation, with which it is proposed to link up, a matter of some difficulty.

WOOL-BROKING BUSINESSES IN AUSTRALASIA, 1930–31[1]

TABLE I. NUMBER OF FIRMS

Number of Firms Operating in Australia and New Zealand	2
Number of Firms Operating in Australia only	32
Total Number of Firms Operating in Australia	34
Number of Firms Operating in New Zealand only	30
Total Number of Firms Operating in New Zealand	32
Total Number of Firms Operating in Australasia	64

TABLE II. DISTRIBUTION OF WOOL-BROKING TURNOVER

Country	Number of Firms	Wool Handled (Bales)	Percentage of Total Sales	Percentage of Firms Operating
Australasia	2	755,168	25·8	3·1
Australia	6	1,441,092	58·1	17·6
Australia	9	1,798,430	72·5	26·4
New Zealand	4	221,076	49·6	12·5
New Zealand	7	299,609	67·2	21·8

TABLE III. WOOL-BROKING HOUSES GROUPED BY TURNOVER

AUSTRALIA		NEW ZEALAND	
Turnover (Bales)	Number of Firms	Turnover (Bales)	Number of Firms
Under 25,000 each	15	Under 5,000 each	10
25,000 to 50,000	4	5,000 to 10,000	11
50,001 to 75,000	6	10,001 to 15,000	3
75,001 to 100,000	4	15,001 to 20,000	1
Over 100,001 each	5	20,001 to 30,000	3
		30,001 to 50,000	2
		Over 50,001 each	2
Total	34	Total	32

[1] The figures are based upon information given in Dalgety's *Annual Wool Review*, 1930–31

BRITISH ENTREPÔT TRADE IN AUSTRALASIAN WOOL
(million lb.)

	1904–08	1909–13	1920–24	1925–29	1930–34
Average Annual Imports of Wool into U.K. from Australia	274	300	356	252	283
Average Annual Re-exports of Australian Wool from U.K.	165	169	206	98	77[1]
Average Annual Percentage of Wool Imports from Australia Re-exported . . .	60·2	56·3	57·8	39·0	26·3[1]
Average Annual Imports of Wool into U.K. from New Zealand	148	181	193	185	205
Average Annual Re-exports of New Zealand Wool from U.K.	23	40	43	68	80[1]
Average Annual Percentage of Wool Imports from New Zealand Re-exported . .	15·6	22·1	22·3	36·8	39·6[1]
Average Annual Imports of Wool into U.K. from Australasia	422	481	549	437	488
Average Annual Re-exports of Australasian Wool from U.K.	188	209	249	166	157[1]
Average Annual Percentage of Wool Imports from Australasia Re-exported . . .	44·5	43·4	45·3	38·0	32·0[1]

RE-EXPORTS OF AUSTRALIAN AND NEW ZEALAND WOOL FROM THE UNITED KINGDOM
(million lb.)

Year	Australia	New Zealand	Year	Australia	New Zealand
1904	144	17	1920	160	10
1905	148	27	1921	179	20
1906	146	26	1922	219	56
1907	178	24	1923	228	64
1908	210	23	1924	146	63
1909	207	44	1925	111	51
1910	177	36	1926	113	59
1911	165	34	1927	97	71
1912	156	39	1928	86	79
1913	140	38	1929	85	78
			1930	80	54
			1931	72	69
			1932	82	76
			1933	76	120

[1] 1930–33

DISTRIBUTION OF PURCHASES AT AUSTRALASIAN WOOL AUCTIONS

1924–25 to 1934–35

(The figures are the percentages of the total wool sold directed to each country or group of countries)

Countries	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
United Kingdom	33	32	31	28	28	27	27	32	27	25	33
France	18	26	23	20	21	24	18	14	15	10	11
Germany and Austria	10	9	15	15	14	14	15	10	14	17	5
Belgium and Holland	7	6	7	8	10	8	7	7	9	11	15
Japan, China, and India	11	7	8	12	11	11	18	20	18	19	21
U.S.A. and Canada	7	8	5	3	3	3	3	1	1	1	1
Italy and Switzerland	5	4	3	4	4	5	5	6	6	6	2
Russia, Norway, Sweden, Poland, Czechoslovakia and Spain	–	–	–	3	2	1	1	1	1	2	3
Local Manufacturers in Australasia	9	8	8	7	7	7	6	9	9	9	9

3. The Marketing of Wheat

Wheat-growing for export has long been undertaken in Australia, but the industry belongs essentially to this century. From 1860–61 till 1895–96, the crop did not reach 28 million bushels in any year and the first considerable export did not take place until 1904. For the five pre-war years, the area harvested averaged 7·6 million acres per annum. The acreage expanded until, as a special war effort, it reached a peak of 12·5 million in 1915–16. After 1920, it rose from 9·1 to 14·9 million in 1929–30, followed by a temporary jump to 18·2 million in 1930–31, and an average of about 15 million since. The pre-war crop averaged 90 million bushels and until 1931, when 213 million bushels were harvested, the highest recorded production was 179 million bushels in 1915–1916. In 1930–31, and again in 1932–33, the yield exceeded 213 million bushels. The post-war decade was a period of favourable prices due, no doubt, to the decline in supplies from Russia and the Danube basin.

The technique of wheat-growing has largely improved. Climatic obstacles have been in part surmounted by the practice of fallowing and ploughing land to conserve moisture and by the breeding of drought-resisting varieties of grain. Yet it is impossible to be certain that these developments alone are responsible for the fact that, in recent years, crop failure in Australia taken

as a whole has not occurred. In the period 1897 to 1916, several failures were experienced, but they were due to drought on such a scale as to render all the efforts of science vain. The average yield per acre is only about 12·5 bushels, since the growing season is limited, moisture deficient and the soil often light in character. The area under crop is liable to rapid fluctuation, for wheat-growing is often associated with the keeping of sheep and the rotation is a very flexible one.[1] New South Wales is the principal producing State, followed by Victoria, Western Australia (where the output has expanded rapidly of late), and South Australia. Queensland normally grows only sufficient for her own requirements and Tasmania less than half a million bushels on the average. The grain is produced cheaply at low labour cost. Harvesting is done by mechanical strippers by means of which, owing to the dry weather prevailing at the time of ripening, the grain can be reaped and threshed in one operation.

Australian wheat production is about 4·5 per cent of the world total and some 5·5 per cent of the total production of the principal exporting countries. Yet the output is relatively high in proportion to population and in consequence Australia furnishes about 11 per cent of the net exports of the leading countries engaged in the trade taken together. A smaller proportion of the Commonwealth output comes to Europe than in the case of the chief surplus-producing countries, a fact which may be accounted for by geographical position and the decline in consumption per head in North America and certain parts of Europe.

The Handling of Wheat. In most States, wheat is sold in bags containing three bushels which are filled in the field. It is carted to the railway where it may be stacked for the time in dumps in the open. Climatic conditions favour this cheap method of storage and wheat keeps better inland than at the seaboard, where it is more liable to attack by weevil. Seasonal pressure on the supply of railway wagons necessitates country storage for considerable periods in any case.

New South Wales was for about fifteen years the only State in

[1] There are some 70,000 growers, of whom 60,000 make wheat their principal source of livelihood (Royal Commission on the Wheat, Flour, and Bread Industries, First Report: Commonwealth Parliamentary Papers, 1932–34).

which bulk-handling facilities were provided. The question of introducing such a system had been canvassed in more than one State since 1906, but no action was taken until, as the result of a report of a Royal Commission in 1917, the Federal Government passed a Wheat Storage Act providing for advances to the States for the construction of grain elevators. New South Wales was the only State to implement a scheme for which tenders were called in 1917. The step was to some extent a war emergency and was intended to save loss by mice, flood, and weevil. The system was first put into operation in the 1920–21 season and the capital expenditure has been about £5 millions. Country elevators are now provided at 90 points, while the terminal elevators are in Sydney harbour (6½ million bushels) and Newcastle (¾ million bushels). The total storage capacity (150 silo stations) is at present about 21 million bushels at one filling, though the proportion of the total wheat received at rail handled by the system has never exceeded 52 per cent, including bagged wheat forwarded to the terminal elevators from non-silo stations. Western Australia has now instituted a system of bulk handling and Victoria and South Australia will probably follow suit. In Western Australia the Royal Commission on the Disabilities affecting Agricultural Industries recommended that the wheat pool be given the physical handling of all wheat. The difficulties of operating the system successfully arise from the fact that (i) in New South Wales its capital cost was probably a maximum and on a strict accounting an average loss per annum of £250,000 is shown for the first ten years of operation; (ii) the wheat crop may fluctuate widely for reasons already suggested and in any case is too small in some localities to bear the cost of silos; (iii) it has not yet been proved cheaper in the average year or more convenient on the whole than bagging; (iv) as the crop is delivered within a few weeks, the country storage capacity has to be great. In order to use the system efficiently the grower requires to install a bin on the farm and to provide himself with a bulk-wagon for cartage to the rail. Special railway trucks are also required. At present many farmers move their grain to the silos in bags fastened with clips and use the bags over and over again. A charge of 2d. per bushel is made for receiving, fixing

quality, handling, storing and delivering wheat into trucks at country stations; and a further ¼d. a bushel is collected for receiving wheat at the terminal elevator, weighing in, and weighing and loading out. The fee of 2¼d. includes storage until 31st July, after which date ⅛d. per bushel per week is charged, the average total cost including storage being 2½d. per bushel. The silo management pays the rail freight and collects it, together with the other charges incurred, at the time of delivery from the terminal elevator. Bulk wheat warrants are issued to farmers using the system, showing the quantity and quality of the wheat and the place of delivery. The warrant is a negotiable instrument, transferable by endorsement, and is quoted on the Stock Exchange at the current market price. The bulk-handling system is not self-supporting, since the revenue charges are not sufficient to include full interest and depreciation on the capital cost, though that cost is not all properly chargeable owing to the special circumstances in which it was incurred.

Only a rough estimate of the relative advantages of bagging and bulk-handling is possible. The bags which hold 3 bushels cost about 7½d.–9d. each, but the weight of the bag is paid for as wheat and bagged grain absorbs moisture, while silo wheat does not. Millers use the bags again for the sale of wheat offals. The cost of the bags is, therefore, about 2½d.–3d. per bushel, as against the 2½d. per bushel charged for bulk-handling, but as much as half of the cost of the bags is recovered when wheat is worth 4s. 6d. per bushel and about one-fifth at 3s., apart from any gain in weight. The total cost of handling in bags has been put as high as 5½d. a bushel, including sewing and ramming, but it must necessarily vary a good deal. In Western Australia it was estimated by the Committee on the Bulk Handling Bill in 1932 that a saving of at least 4d. per bushel could be secured, but the official estimate in South Australia in 1934 was that about 2¼d. per bushel would be saved if bulk handling were adopted. The larger the wheat crop, the higher the price of corn-sacks is likely to be, as enough may not be ordered in advance. Orders are given in September and there is not time to get additional supplies from India, if required for the December and January harvest. The existence of a bulk-handling system,

therefore, tends to steady the local price of bags. There was, in fact, an increase in deliveries to the silos at the end of 1930, owing to the scarcity and high price of cornsacks.

About 70 per cent of the wheat sent overseas from New South Wales in recent years has been shipped in bulk. The saving in the loading and discharging of ships is partly offset by the expense of providing dunnage, shifting-boards, etc., though the holds do not need to be lined, as it was once thought would be necessary. In any case, a large amount of wheat must continue to go out in bags, since bulk cargoes are usually topped with sacked grain and many of the ports to which wheat is shipped have no facilities for handling it in bulk.

The Grading of Wheat. The Australian wheat grain is usually well-filled and free from the defects of that produced in regions subject to autumn frosts or rust. Wet weather about harvest time is the most important factor affecting appearance, which is, as a rule, attractive. The wheat yields a very white flour which is of fairly high baking quality. The volume of bread that can be produced from a given weight of flour is not so great as for the best of the North American "hard" wheats, but is above that yielded by European soft wheats. It is possible to grist a "straight-run" flour from Australian wheat, as has been done both in the United Kingdom and in the Commonwealth, but the "strength" of such a flour would vary from year to year and from district to district and accordingly the wheat is usually blended before gristing. In fact, the demand for it in some overseas markets is largely due to its usefulness for mixing with grain from other sources in order to produce a flour with consistent baking qualities. The average moisture content of the new crop is about 10·5 per cent, which increases as it is kept so as to give an average of about 12 per cent over the season.[1] The wheat is a "white" wheat like that grown on the Pacific coast of North America, very little "red" wheat being produced.

The wheat is sold on what is known as the F.A.Q. system, i.e. one standard grade, "Fair Average Quality," is fixed each season in each State.[2] The grade is merely the weight per bushel or

[1] Duly—*Grain*, p. 62.

[2] A similar system has been introduced in N.Z. (Board of Trade (Wheat) Regulations, 1934–35.—*N.Z. Gazette*, 10/12/34).

"natural weight," as it is called. In order to determine the standard bushel weight for the season, samples are forwarded as soon as may be from the various divisions of the State to the Grain Committee of the Chamber of Commerce in the capital city. The samples are mixed together in the proportions which the wheat areas of the various divisions from which they are drawn bear to the total wheat acreage of the State, as estimated by the Government Statistician. Measures are filled with the mixed grain and weighed on a patent scale and an average is struck from which the weight of an Imperial bushel is computed. The "natural weight" varies from year to year and is correlated directly with the amount of rainfall in the later stages of growth. It is usually in excess of 60 lb. For the period 1920–29, the average was in Victoria 61·4 lb. and in New South Wales 61 lb., the range being from 59½ lb. to as high as 63. The standard is fixed as soon as possible, usually before the end of January in New South Wales.

The balance of advantage is in favour of the existing method of grading, though it is the subject of much controversy. Australian wheat is very uniform in quality and it is said that only about ½ per cent is "off grade." The wheat is relatively free from foreign seeds, as it is usually grown on a clean seed-bed after fallowing. For these reasons, it is unnecessary to have a number of grades, as in Canada, though the New South Wales Wheat Act, 1927 (not yet in force), makes provision for their establishment. In that State, only F.A.Q. wheat is received at the silos, yet a considerable amount was expended in providing bins in the working-houses in order that several grades might be catered for. For the first time in history, it was found necessary by the Sydney Chamber of Commerce, owing to rust and bad harvest conditions, to fix two grades (59½ lb. and 56½ lb.) in order to provide adequately for the varying quality of the millable wheat of the 1930–31 crop. It is true that a variable standard is not wholly satisfactory and that its determination is somewhat rough and ready, but it is better to vary the standard so that it will cover most of the year's crop than to have a fixed one to which little of the grain may, in a given season, happen to conform. In any case, the system is accepted as satisfactory by traders in overseas markets. Growers complain, however, that they are penalized

by arbitrary dockages on wheat that is dirty and below standard, while they receive nothing extra for wheat that is above. This can only mean that wheat does not bring the full premium for cleanness, brightness, etc., for it is sold by weight and the total weight of a consignment is divided by the weight of the season's standard bushel in order to determine how many bushels are to be paid for. Under the circumstances, it seems idle to suggest, as has been done, that the Queensland grower has benefited by the abolition of the F.A.Q. system under the State Wheat Board's regime. It is possible, however, that the method of taking samples could be improved, but that is a matter that is not beyond the resources of the statistician. One real difficulty is that the greater part of the crop may actually be shipped before the standard is fixed for the season. In practice, this is not so serious a matter as may appear, since experts are able to form opinions in advance upon which to base their buying operations and country agents may forward doubtful samples to the principals for decision. Again, overseas traders have a fair idea of what the wheat is like and, in the United Kingdom, they may have the benefit of arbitration on quality when the standard comes to hand. Yet the possibility exists of gain or loss to some section of the trade, because the wheat of a State which goes to a premium in the overseas markets after the standard has been fixed rarely brings that premium early in the season. However, an all-Australian permanent grade is out of the question and even the introduction of a few grades in any State appears likely to involve loss through disturbance to markets. The F.A.Q. system is extraordinarily elastic, is fair to both buyer and seller, and is very suitable under the conditions which obtain.

Wheat Marketing Organization. In disposing of his grain, the grower has various alternatives open to him. He may contract his wheat to a pool[1] or to a merchant or miller before harvest[2]; he may sell his crop outright to a merchant or miller at the

[1] The operations of the pools are considered under co-operative marketing and the present discussion applies mainly to the work of the private merchants.

[2] Owing to low prices and the uncertainty as to the measure of government assistance that might be forthcoming, there was no forward buying at the end of 1930. The market has been influenced by similar uncertainty in later years.

country siding; or sell part and store part, with a merchant, a miller, or a co-operative; or, finally, he may hold or store the wheat and defer sale. In practice, he usually sells at least a part of his crop in order to secure some ready cash or takes a pool's first advance on the whole. The unsold portion will be stored by the merchant, provided the owner sells ultimately through him. The grower may direct the merchant to buy the stored grain at any time, but he is liable for storage and insurance charges if he disposes of it elsewhere. All the large shippers throughout Australia have their own direct buying agents at every important country station, the rate of commission being $1\frac{1}{8}$d. per bushel in Victoria and $1\frac{1}{4}$d. in the other States. A shipper may have a salaried buyer, but as a rule the work is done by country storekeepers, country co-operatives, country commission agents or even by farmers who have the necessary leisure. The buyers are usually busy among the growers before harvest, for cargoes may be offered abroad by shippers as early as September or October. After harvest, they attend daily at the sidings where they purchase, care for, and rail the wheat. December and January are the principal delivery months.

Apart from the pools, export selling is undertaken by half a dozen large firms which operate upon an international scale. The work of buying and selling is closely bound up with the chartering of freight. Since the cost of transport is so considerable an item in the Australian trade, it is important to secure good charters. As a rule, freight is cheaper if it can be booked up some months before the harvest, but this practice involves great risk, as the crop may prove deficient or the charterer be unable for other reasons to secure enough grain to fill his ships. Yet the risk may be worth taking, for the lower freight may enable the merchant to outbid and undersell competitors and increase his turnover of wheat. In the course of the season, every effort must be made to ensure as far as possible the co-ordination of buying and selling and of rail transport and shipment. The prices offered by merchants are based on daily quotations cabled from the world's markets and the wheat is disposed of again soon after it is bought. Under certain circumstances, this procedure may be varied. On a rising market, it is bound to be satisfactory,

but when the market is falling, or is considered likely to fall, the process may be reversed. The merchant may also sell unbought wheat in order to provide full cargoes in advance for his ships, relying on his ability to cover his requirements at the right price. This he is able, as a rule, to do, partly because stocks are stored with him and partly because his knowledge of market conditions is superior to that of the farmer. At the worst, he may even load unbought wheat and protect himself by option dealings, or, on the other hand, bought wheat may have to be shipped unsold. In any case, all the steps involved in the movement of grain must dovetail into each other in order to avoid expense. Thus wheat must not be kept too long in the country stacks owing to lack of ships, since it may have to be roofed over and since capital is locked up, the merchant's credit being based on bills of lading. Rail freight must also be secured at the right moment, so that grain may go direct to the vessel and extra handling and demurrage be avoided.

Sales are necessarily effected long before delivery in overseas ports takes place. This fact is important for the understanding of market operations. The time when delivery can be given is known approximately from the charters that have been secured and, as wheat comes forward, it is sold in varying quantities at different points. Accordingly, cargoes are usually disposed of before they are loaded and buyers may "hedge" their purchases in order to protect themselves in the meantime.

The form of charter party current in the Australian trade[1] provides for loading at two ports in Western Australia, or at two in South Australia, or at Melbourne, Geelong, and Portland in Victoria, or at Sydney. The rates from Western Australia are, of course, lower than those from the eastern States, and the total cost of transport from New South Wales is high on account of the long hauls from the inland wheat belt. The charter makes liberal provision as to choice of route and number of ports of discharge.

[1] See "Chamber of Shipping Australian Grain Charter, 1928," known as the Austral Form Charter and agreed between the Chamber of Shipping of the United Kingdom and the Australian Grain Shippers' Association. Ships are chartered in London, usually through chartering agents. Between three hundred and four hundred ships are required to lift Australia's export surplus.

The ship may be required to proceed via Panama, the Cape, or Suez and to discharge at one safe port in Great Britain or Ireland (limited to Cork, Dublin, and Belfast) or at one port on the Continent between Bordeaux and Hamburg (both inclusive) or at a Mediterranean port. Discharge at three ports may be ordered, but they must be in geographical rotation. The rate of freight is slightly higher when the option to use more than one port is exercised. The charterers, or their agents, have the right to superintend discharge, check weights, etc., and also to sub-let the whole or part of the vessel. Considerable amounts of wheat are also carried by the regular vessels trading to Australia at rates fixed from time to time. For these "parcels" there is a limited range of ports of discharge and this may affect their value, although they may on occasion go to a premium above cargoes. The right to discharge the latter at various selected ports is, however, a great convenience, since sales for any one destination may not come up to expectations and the vessel may complete unloading elsewhere. Unless the market looks like improving, it is dangerous to land wheat unsold as storage charges are heavy; but should this be necessary, a port where dues are low, e.g. Hull, will generally be selected.

Market Movements. In a normal season, there are well-defined price fluctuations as will be evident from the following figures[1]—

Average Monthly Prices for Wheat, 1923 to 1929
(January = 100)

January	100·00	July	98·70
February	99·47	August	101·51
March	98·59	September	100·90
April	98·57	October	100·87
May	100·46	November	101·30
June	98·73	December	100·90

The range of fluctuation is very small, yet it presents some remarkable features. The relatively high rates ruling in December and January would seem to belie the common assertion that post-harvest prices are depressed and also the counter-assertion that they are low then because cost of storage, etc., is discounted. The fact is that special influences are at work. Merchants have to be certain of securing sufficient wheat for their earliest charters

[1] Taken from an article by Prof. D. B. Copland in *The Argus* (Melbourne, 29th May, 1930).

and, in addition, since farmers are delivering more grain than they actually sell, it is reckoned that those buyers who are offering the highest prices will receive most wheat on storage. The advantages are that turnover is greater, risk of inability to load vessels diminished, and the natural increase in weight of the wheat secured. From April to September, price movements are greatly influenced by prospects and production in the Northern Hemisphere. This explains the rise in August, when northern wheat is relatively scarce, and the movement has been so regular that "buy in July" has become a maxim of the trader. Other factors that may affect prices include the immediately available supply in the form of cargoes afloat. If these are in excess of current demand, offers for future supplies are likely to suffer a severe decline. Further, the price received will vary according to the special nature of the demand. Thus, with the United States Farm Board holding up supplies of Pacific Coast wheat, a better market was assured to Australian grain in those cases where a white wheat was required for blending or for the needs of a special trade.[1] Low prices have probably been responsible for increased sales to the far East, buyers being able to afford the better Australian wheat, as against the lower grade of Canadian which they would otherwise take. The crop is usually kept well sold up, so that Australian wheat is not continuously available at every point and users may have to be brought back on to it each year. The current demand for wheat depends almost directly upon bakers' orders for flour, for the port mills in the United Kingdom do not hold any more grain than they can help. The bakers' demand is subject to fluctuation, the wheat market firming as it grows and then falling away again.

The British Market. There are in Australia no grain markets similar to the Baltic Exchange and Liverpool. Grain exchanges do exist in Melbourne and Adelaide, but their work consists in regularizing contracts, rather than in effecting sales. The Baltic

[1] E.g. the west coast mills in the United Kingdom cater *inter alia* for a special Irish trade. There is even a demand for a certain type of flour used in baking a particular kind of cake eaten in Ireland, and "straight-run" Australian flour has even been gristed for this purpose in Glasgow, in default of other supplies. Shipments of Australian wheat and flour to India are largely required for providing Anglo-Indians with bread and rolls for which the local grain is not so suitable.

Exchange in London is important because not only may grain be bought and sold on the floor, but ships chartered as well. Firms and pools in the Australian wheat trade are represented on the exchange either directly or by their agents. Wheat on passage may change hands several times during a voyage. Grain brokers play a large part in the operations, acting for millers or shippers as required. "Parcels" are dealt in as well as full cargoes,[1] and options may be sold in London or Liverpool against purchases.

Closely bound up with the Baltic Exchange is the London Corn Trade Association. These bodies draw up standard forms of contract which are used and recognized the world over.[2] In the London Association, there is a sectional committee for the Australian trade.

Apart from the somewhat formal provisions relating to shipment, price, destination, freight, and arbitration, the contracts include important clauses relating to quantity and quality. The quantity shipped, in the case of the Australian contracts, may vary within small limits from the nominal amount contracted for, but the seller is concerned, of course, in the weighing of the cargo at the port of discharge, since the quantity actually paid for is then determined. Superintendence of out-turns is, therefore, an important operation, and the Western Australian pool has formed a subsidiary company for the purpose. More important than quantity, however, is quality. Australian wheat is sold under guarantee that it is "of fair average quality of the season's shipments at time of shipment" or "to average at time of shipment about equal to the official standard of the Chamber of Commerce of the State whence shipment is made," this standard being adopted by the London Corn Trade Association for purposes of arbitrations upon quality.[3] Though sellers guarantee quality at time of

[1] Cargoes may be broken up into "parcels." Delivery of a "parcel" is given at a stated port and no other.

[2] See London Corn Trade Association Australian Wheat Contracts, No. 12 (Cargoes), No. 14 (Parcels). Similar c.i.f. contract forms are issued by the Liverpool Corn Trade Association. Australian wheat is also tenderable (at 60½ lb. to the bushel) under the Liverpool futures contract, but is usually too dear.

[3] The Association has standard samples furnished to it by the Australian authorities. These are not, of course, available when the first shipments arrive, but samples from these shipments may be held where required and comparison made later.

shipment, samples are not taken then, but at time of discharge. The samples, when drawn and sealed, are forwarded to the Corn Trade Association and may there be compared with the season's standards if the quality is in dispute.

As regards condition on arrival, Australian wheat, unless otherwise contracted, is sold *tale quale*,[1] i.e. the seller is not responsible for damage to the grain during the voyage. The clause in the contract reads "shipment in good condition, but *tale quale* as regards condition on arrival." The buyer has no recourse against the seller unless he has indisputable evidence that the grain was out of condition when shipped.

International Organization. The disturbance of the wheat trade during the decade 1914–1924 has resulted in some attempt at international co-operation and regulation. In 1931 an International Wheat Conference met at Rome and in London and was concerned with the encouragement given by certain European countries to increased production and with the holding-up of stocks by Canada and the U.S.A. The meeting resulted in establishing the principle that the chief exporting countries—U.S.A., Canada, the Argentine, and Australia—should accept some measure of regulation in order to avoid demoralization of the market. But adherence to the principle in practice was another matter and the various refined methods of "dumping" established by the U.S.A., France, and other countries introduced a complication which tended to vitiate any system of control. At the conference held in London in 1933, the U.S.A., Canada, the Argentine, and Australia agreed upon the question of a standard price and the limitation of exports.[2] In order to check the stimulus to production by means of tariffs, the importing countries agreed to reduce their duties if wheat reached a price of approximately 31s. sterling per quarter during a period of four months or more. It was agreed among the exporting countries to limit supplies to 560 million bushels during 1933–34 and the importing countries undertook not to encourage any

[1] "Such as it is, whatever it is."

[2] World Wheat Conference, London, August, 1933—Final Act (with Appendices). The agreement continues in force, Australia's export quota for 1934–35 being 150 million bushels, and an extension to the 1935–36 season has been approved.

increase in acreage. The price of wheat, however, is not likely to reach the stipulated figure, and if it does, the whole scheme may be frustrated by increased production. Still the method of international agreement is to be commended, however meagre the results may appear.

4. The Marketing of Dairy Produce

The export trade in dairy produce, as has already been seen, is much more important for New Zealand than for Australia,[1] though the Australian output has greatly increased in recent years and is no longer subject to marked seasonal fluctuations. Improved pasture management, fodder conservation, and increased production of fodder crops have played their part, but favourable seasons and the increase of dairying in the wheat and wool areas account for much of the expansion. It is probable that, on the whole, the absence of hand-feeding has involved economic loss, but it is often difficult to determine in which areas it pays or to convince the farmer that it is worth while. Little cheese is made in Australia, the bulk of the output coming from the Darling Downs district of Queensland. New South Wales is the leading butter-producing State, but does not play so important a part in the export trade as Queensland and Victoria. Smaller quantities are sent overseas from South Australia and from Tasmania; and Western Australia, owing to favourable climatic conditions, has been able to initiate an export trade. The greater number of New Zealand's dairy cattle are in the North Island, where the pastures are unexcelled, but dairying is also extensively carried on in the South Island. Many of the factories are equipped with dual plant and can change over from cheese to butter and *vice versa* according to market conditions and prospects.

Marketing Organization

(*a*) *In Australia and New Zealand.* The dairy-farmer, as an individual, plays a far smaller part in the marketing of his product than do the sheep-farmer and wheat-grower. His work is limited to the delivery of his milk or cream to the factory, or even to

[1] Percentage of dairy produce to total exports: New Zealand, 45; Denmark, 30; Australia, 9; Canada, 2.

placing it at the farm gate for collection. Home-separation of cream for butter-making is widely practised, though it may have harmful reactions on quality. It renders dairying practicable in thinly populated areas, since the cream can be delivered two or three times a week instead of every day as with milk. It has the further advantage that the skim milk is kept on the farm, instead of being returned from the factory. Where there is more than one factory in his district, the farmer has some choice regarding an outlet, but the existence of competing factories involves some loss to the industry as a whole.

The disposal of the product is a matter for the co-operative or privately-owned factory. In some cases, more than one factory may be under the same control; in others, individual factories may do their marketing through a single organization. The various classes of importers in Great Britain are represented in Australia and New Zealand either by branches or by agents. The work of these agents, who operate under cabled instructions, is to keep in touch with the dairy factories in order to secure supplies for their principals or to obtain consignments for sale on commission. They are especially active about the time the season opens, say in August.[1] The directors of co-operatives hold meetings to decide upon marketing policy (often called disposal meetings), at which agents attend and make offers or press their claims to be given the work of selling. When offers are for forward purchase of a portion or of the whole of the output during a given period, acceptance must depend upon marketing prospects, so far as they are calculable, a matter upon which the co-operatives are not usually very competent to pronounce. They are hardly in any better case when they come to decide between rival commission agents offering to undertake the sale of produce. The quality of the services offered and the marketing skill of the various firms are matters upon which judgment is possible after, rather than before, the event. The factories are, therefore, well

[1] The intervention of the Dairy Produce Export Boards, and especially of the N.Z. Board since 1934, is resulting in considerable modification of the marketing arrangements (See Chapter III, Section 4); e.g. canvassing of factories by agents is eliminated in N.Z. since the Board, in consultation with the factories, allots supplies to the selling agents. But the above outline may serve to explain why changes were thought to be necessary.

advised to forward their produce to firms of good standing, and in some cases shipments are divided among several agents. It is true that the agent's work can be checked to some extent by comparison with the results obtained by other firms and that the Dairy Boards endeavour to conserve the producers' interests in their relations with commission salesmen, yet it is nevertheless the fact that only by close and continuous supervision of their operations can efficient service be ensured. It may be argued that competition will of itself protect the producers' interests, but competition has little or no effect upon the long-established customs of a well-organized trade. It is not intended to suggest that the selling agents as a body are capable of dishonest acts, but there are certain trade practices, met with also in other markets (e.g. fruit), which benefit the middleman rather than the producer. The latter is concerned to know, not only that the agent has sold the produce to the best advantage, but also that the account sales represents the actual price made, and not some other rate ruling about the same time nor the average of a number of consignments disposed of for various principals.[1] As a general rule, the factory leaves it to the agent to secure the best possible price, yet it does happen on occasion that he will be instructed not to sell below a stipulated figure. Such a practice has nothing to commend it, especially in a disturbed market, as the agent on the spot is by far the better judge. Consignments have been held up in this fashion in the expectation of a price recovery which usually fails to eventuate. It is sometimes complained, however, that, if the agent is given a free hand, harmful results may ensue. It is asserted, for example, that when several agents share in the disposal of a shipment from one principal, they compete with each other in their haste to effect sales in a falling market. Under these circumstances, the first to sell (even at a sacrifice) believes, so it is said, that he will make the best price, since he is spoiling the market for the others. When returns from the several agents are compared, the "quick quitter," as he has been called, will appear to advantage. Investigation reveals, however, that there is little ground for complaint and that agents have sound reasons for clearing consignments quickly on certain occasions.

[1] Averaging is now prohibited by the N.Z. Dairy Marketing Regulations.

The farmer's part in marketing includes the responsibility for seeing that his product is of the very highest quality. The skill of the butter and cheese maker may do much to eliminate defects, but cannot overcome completely the handicap of faulty raw material.[1] Almost all the milk and cream is pasteurized before manufacture in New Zealand and a large proportion in Australia. The factories are equipped with up-to-date plant in most instances and with special appliances for weighing, packing, etc. Butter is packed in boxes of standard size, each containing ½ cwt. and bearing a complete history of the contents stamped upon the end. This includes the name of the factory, the factory brand, the number of the churning, and after these have been determined, the grade marks and brand indicating quality. It might be well perhaps if the British consumer were educated up to the significance of the details inscribed upon the boxes and urged to look for them in the shops. At present, they are regarded as being of importance only to the trader. The butter box must be made from timber that will not impart wood-taint to the contents. For many years, the New Zealand white pine or kahikatea, which is eminently suitable, was almost exclusively used, but its growing scarcity has led to increased dependence upon boxes imported from as far away as Scandinavia. Cheese is packed in double crates of a standard size, with a central shelf or partition, solid ends and sides formed of battens spaced at intervals. The crate holds two cheese, the contents weighing on the average somewhat above 160 lb. Thus the package is sufficiently heavy to escape being thrown about and damaged, as may happen to Canadian cheese. The colour, vat number, date of making, and net weight are stamped on the crate and each bears the factory brand, etc. In New Zealand, cheese must be stored on shelves at the factory for fourteen days before packing, each cheese being turned once every day. In some cases the outside is waxed, though there is difference of opinion as to the profitableness of the practice. Butter and cheese for export are forwarded to grading stores at specified centres where weights are checked and quality officially determined.

[1] The introduction of the milking machine is said to have had harmful reactions upon quality, as the machines are difficult to sterilize.

Much discussion centres round the question as to whether forward sale is more advantageous than consignment. The extent to which each method has been favoured in recent years is indicated by the following figures.[1]—

BUTTER

Season	Australia		New Zealand	
	F.o.b. and c.i.f. Sales	Consignment	F.o.b. and c.i.f. Sales	Consignment
	%	%	%	%
1925–26 .	10·80	89·20	—	—
1926–27 .	22·39	77·61	—	—
1927–28 .	21·53	78·47	—	—
1928–29 .	31·31	68·69	34·70	65·30
1929–30 .	25·29	74·71	16·00	84·00
1930–31 .	34·69	65·31	17·00	83·00
1931–32 .	35·64	64·36	17·00	83·00
1932–33 .	28·87	71·13	19·00	81·00
1933–34 .	13·81	86·19	15·00	85·00

NEW ZEALAND CHEESE

Season	F.o.b. and c.i.f. Sales	Consignments
	%	%
1928–29 . .	19·33	80·67
1929–30 . .	22·50	77·50
1930–31 . .	5·00	95·00
1931–32 . .	12·00	88·00
1932–33 . .	10·00	90·00
1933–34 . .	7·00	93·00
1934–35 . .	18·00	82·00

These figures must not be regarded as indicating tendencies, since in the main the influences at work are not such as to induce permanent change in either direction. For example, deflation did not have any marked effect at first because buyers continued to some extent to take a hopeful view of the market and their offers were not so low as to cause the factories to refuse to sell forward. It may be that the Paterson scheme has on the whole promoted forward selling in Australia, as, with differential prices ruling,

[1] Figures supplied by the Dairy Produce Boards.

factories can thus adjust their accounts with greater facility than if they have to await final realizations on the part of their output that is sold in London. In New Zealand, the consignment policy is strictly followed by the largest co-operative group, but, on the other hand, the South Island cheese factories prefer to sell their output forward, if they can. The fixing of minimum prices for f.o.b. sales has not diminished the amount of produce sold forward. In New Zealand indeed there has been a considerable increase during the 1934–35 season. However, it is clear that, in the last analysis, the method of sale will depend on the relative advantage, actual or anticipated, having regard to market conditions and prospects. On the one hand, merchants' offers may appear unduly low upon some occasions and, on the other, producers may be anxious to sell forward because they anticipate a heavy output.

The advantage in forward selling is that there is less delay in finalizing factory pay-outs. Once the sale is effected, the supplier knows exactly where he stands and passes on the risk of subsequent fluctuation to the buyer. Against this, it is contended that forward selling may place the merchant in a position to influence future market movements. The possibility of his being able to force prices up by withholding his stocks is very slight, if it exists at all. He might, however, attempt to "bear" the spot market by sacrificing part of his stocks as a preliminary to further forward buying. "Bearing" the market by making sales of unbought produce is not possible, because delivery or the transfer of some documentary title to the goods is required at the time of sale. It is difficult to acquire stocks for illegitimate purposes, as sellers are concerned to see that their goods are sold for consumption.[1] At times, holders who have overbought begin to unload stocks in a falling market in order to cut their losses and this operation is commonly mistaken for a "bear" movement. What producers may fear is that the fact that traders hold stocks may prevent the market from rising as high as it might otherwise do. The merchant may be willing to quit his stocks so long as they

[1] Selling short is prohibited by the N.Z. Dairy Marketing Regulations, and the London importers are not to purchase on their own account for speculative purposes though they may buy "spot" for the legitimate requirements of their trade.

yield a profit without taking the risk of losing a sale by striving to make that profit a maximum. Yet traders are as much concerned to secure maximum returns as producers, though the methods by which the former attain their ends may not always be straightforward.

The question whether produce should be sold forward or on consignment turns upon whether the producer should transfer his risk from fluctuation at an early stage or not. The orthodox economist would probably hold that the carrying of market risks is no function of the farmer and that he ought to transfer them at the earliest possible moment. This would no doubt be a sound policy in that perfect world contemplated by the assumptions of political economy, but it is not certain that it is advisable in the world as it is. For, if the farmer is to get rid of his risk as soon as possible, he should deal with a proprietary and not with a co-operative factory, since the private concern makes full payment at once, as does the f.o.b. buyer. From the practical viewpoint, it appears to be to the producer's advantage that both methods of sale should be open to him.

(*b*) *The London Dairy Produce Market.* The bulk of the trade is done in Tooley Street where the principal firms have their offices and selling floors. Dairy produce is unloaded at the docks into barges (insulated in summer) and conveyed to the cold stores, of which the chief are the Port of London Authority's store at Surrey Commercial Docks and Hay's Wharf at London Bridge (butter only). The Provision Exchange is in the neighbourhood of the latter. The number of firms which handle Australasian produce as importers is about thirty. The number is small because individual consignments are usually too heavy for the ordinary traders to handle directly.[1]

The importers are organized in three associations, the New Zealand Dairy Produce Importers' Association (24 members), the Australian Dairy Produce Importers' Association (18 members), and the London Provision Importers' Association (60 members). The object of these bodies is to protect and advance

[1] More firms are engaged in handling the imports of Canadian than of New Zealand cheese, though the latter were in 1930–31 three times as great. Canadian consignments are usually within the capacity of the small trader.

the interests of their members, and traders may belong to more than one.

The importers are of two kinds—those who buy outright in the producing country and those who act as commission agents. These functions are frequently combined, an importer selling his own goods alongside those of consignors. This combination of function has been condemned as detrimental to the producers' interests.[1] When prices are high, the importer will tend to clear out his own produce in preference to that of his consignors. The length to which he will go is, of course, determined by the relative importance of his consignment business and his desire to maintain and increase it. In practice the dual rôle is probably not so disadvantageous as might appear, and under certain circumstances it may even be beneficial, for it allows the importer to take over consignments from his principals, if he finds that he has missed the market.[2] The general rule is that consigned produce shall not be sold until after it is landed,[3] and if the opportunity to dispose of it upon favourable terms immediately after discharge is lost through misjudging the market, the agent may prefer to purchase himself, rather than risk losing the business of his clients. Another type of market man is the broker who is employed to buy on behalf of provincial wholesalers who do not visit London, or to buy or sell for clients who do not wish to disclose their identity or let it be known that they are in the market. For these purposes the brokers' services will always be in demand. He also engages in inter-street trading, buying from one merchant and selling to another and reaping a profit from his acquaintance with their requirements and his knowledge of the market.

Some of the importers and agents employ travelling salesmen, but the bulk of the business is done by telephone. All sales are

[1] Imperial Economic Committee, Fourth Report: Dairy Produce. Cmd. 2725/1926, p. 62. The N.Z. Dairy Commission, 1934, also condemned the practice. The approved agents may not purchase produce in New Zealand or afloat, but they may buy "spot," such transactions being reported weekly to the Board.

[2] Yet the fact that an agent can sell to himself or to a nominee may lead to something very like sharp practice and emphasizes what has already been said about the need for close and continuous supervision of the agents' activities.

[3] Except when the shipper directs it to be sold c.i.f.

by private treaty and buyers may visit a firm's selling floor or the stores in order to examine produce. In some cases, they buy "under the iron," i.e. the produce is tested in order to ensure that it is of the required quality, but the official grade marks and the factory brands are usually accepted. This may involve the buyer in loss, however, as the exchange rules provide that claims for quality shall be made within three days of purchase and defects may not be discovered in time. Even so, some allowance would generally be made by the factory concerned on the rare occasions which required it. Payment is made within thirty days, or with 2d. in the £ discount if made within seven days, and the terms include one week's storage. Sales are effected in the first instance to large wholesalers,[1] multiple-shop concerns and retailers, and to blenders, who are really wholesalers. The blender has an important place in the trade. He can take up consignments of defective quality and rework them, though that is not his main concern, which is to provide his customers with a butter of uniform quality all the year round. The amount that passes through his hands may be judged from the fact that 20 per cent of the consumption in Great Britain is estimated to consist of blended butter.[2] It was stated, in an application before the Standing Committee under the Merchandise Marks Act, 1926, that 10 per cent of the imports of New Zealand butter and 40 per cent of Australian go to the blenders. Producers object to this on the ground that their produce thereby loses its identity and they are not able to create a special demand for it. Some Australian and New Zealand butter does, however, reach the retailer in a packeted form and hence identifiable, being prepared either for the producers' organization or by wholesale firms. Some retailers, however, prefer to sell their own brands.

The minimum quantity that must be purchased in order to secure supplies direct from the importer varies according to the size of the buying firm and the state of the market, being usually

[1] It has been estimated that from 30 per cent to 40 per cent of New Zealand butter goes to wholesalers of various kinds. The proportion is decreasing.

[2] Merchandise Marks Act, 1926: Report of the Standing Committee on Butter, Cmd. 3878/1931, p. 5.

twenty boxes of butter, though as few as two have been known to be sold at this stage.[1] The primary wholesaler usually sells other provisions in addition to butter and cheese, employing travellers to seek orders from secondary wholesalers and retailers. The secondary wholesaler may, in some districts, peddle out quite small quantities, consisting of less than a box of butter or part of a cheese.

(*c*) *The London Provision Exchange.* This organization exists rather for the purpose of regulating dealings than for the sale of produce. Its rules prescribe conditions upon which f.o.b. and c.i.f. contracts are based, terms of payment, etc., and provide for the settlement of trade disputes. There are similar exchanges at Liverpool, Glasgow, Bristol, and elsewhere. Though some sales are effected on the floor of the exchange, most of the butter and cheese is disposed of outside. Traders, however, meet there at certain times and make and accept offers of produce. The exchange collects information from its members as to the prices at which they have effected sales on the floor and elsewhere and uses this as a basis for the official quotations which it issues.

Market Fluctuations. Until recently the great variation in the Australian output was an important factor in determining the price of butter in any season. New Zealand production is much more stable and, until the recent very disturbed years, the results to the farmer were markedly improved whenever Australian supplies fell off. Canada is the chief competitor in the cheese market, but the prices of New Zealand and Canadian are not strictly comparable at any given time owing to the fact that when the former is new, the latter is mature, and *vice versa*. Increasing supplies of dairy produce to the British market have been a marked feature of recent years. The quantity of butter, after reaching a peak of about 278,000 tons in 1924–25, declined for a year or two, but exceeded that amount in 1928–29 and in the 1933–34 season totalled no less than 460,500 tons. Cheese supplies have not increased to the same extent, the amount in

[1] The fact that the importer or selling-agent may sell directly to small retailers appears to invalidate the argument that no producers' selling organization could largely eliminate the primary wholesaler because it would not have a sufficient variety of goods to offer.

1933–34, 150,829 tons, being below the average for the past decade.[1]

The greater part of the supplies of butter reaches the United Kingdom in the first half of the year. This is due to the fact that European production is heaviest in the spring and early summer months and to the lag of six weeks or more that takes place between the manufacture and the arrival of the southern makes. The spot market is influenced mainly by supplies afloat and this influence may be seen in broad seasonal movements in prices. These fall away in the later months of the year, as Dominion supplies increase, firming for a week or two before Christmas and usually reaching the lowest point about January. There is then a slight rise during February or March,[2] after which the market falls away again. In May and June, prices improve and there is a continued improvement until the southern supplies increase again. Prices of New Zealand cheese follow a somewhat similar course. In the later months of the year, they decline steadily and the fall continues until the spring. The market usually firms then, is steady for a month or two, and rises in the summer, when the produce is more mature and demand usually greater.[3]

Over a period of years, movements in butter and cheese prices are closely related, but there may be sharp divergencies at times. New Zealand butter usually stands second to Danish in point of price, though it has on occasion equalled and even exceeded the London quotation for the latter. The margin which usually obtains between the two is not considerable in view of all the factors involved. The Danish product is fresh, full-flavoured, easily spread, pale in colour, and in regular supply all the year round. When at times the London price rises far above that quoted for New Zealand butter, it is generally due to temporary shortage of supplies. The Danish output goes regularly to certain markets in well-defined proportions. A higher offer, due to a temporary increase in demand in any one market, may therefore have

[1] 1913–14 (year ended 30th June) imports were: Butter, 213,434 tons; cheese, 118,908 tons. See figures at end of this section for supplies during recent years.

[2] During the brief interval between heavy southern supplies and the European spring supplies.

[3] See price curves for butter and cheese on following page.

AVERAGE WEEKLY PRICES OF DANISH AND NEW ZEALAND BUTTER, CANADIAN AND NEW ZEALAND CHEESE, AND NEW ZEALAND LAMB: 1924–25 TO 1928–29
(SOURCE: AGRICULTURAL MARKET REPORT)

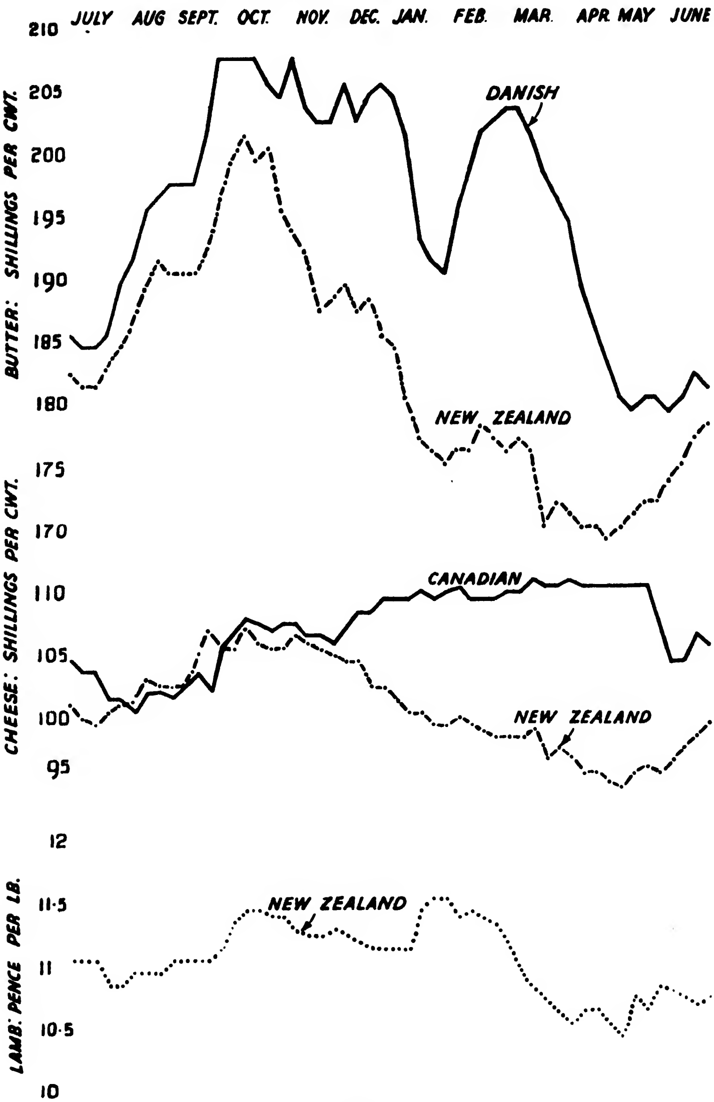

FIG. 3

considerable effects upon prices by raising fears of shortage among traders elsewhere who require a certain quantity whatever the cost. It would not be correct to assume that the whole Danish output always brings the full premium over New Zealand butter which the London quotations indicate.

New Zealand cheese is, on the average, cheaper than Canadian by as much as 2d. per lb., though it commands about 1d. per lb. more than English factory cheddar. During the course of the year, the margin between Canadian and New Zealand varies. It is wider during the first half, but may disappear in the second, when New Zealand may at times go to a premium owing to its being the more mature. On account of its predominant position, New Zealand cheese largely sets the level of all cheese prices in Great Britain, including that of home-produced non-cheddar types.

Traders are, of course, acquainted with these market movements and they adjust their buying policy accordingly. The greater part of the produce changes hands at the lower, rather than at the higher, prices. It is not possible to say whether producers lose as a result, since storage and other costs, as well as the risk of price-fluctuation, have to be borne by the purchasers. Even a complete statistical analysis would probably fail to yield any final answer, owing to the complexity and indeterminateness of the factors involved.

Distribution of the Trade in Great Britain. The greater part of the Australasian dairy produce imports come to London. In 1929, for example, 99 per cent of the Australian butter imports were landed there, negligible quantities being discharged at Liverpool, Glasgow, and Hull. 93·8 per cent of the New Zealand butter imports in the same year were for London, while Bristol, Liverpool, and Glasgow also received small quantities. A small general trade with Bristol has long been a feature of the New Zealand export business, that country supplying the bulk of the butter imported directly at that port. In recent years, the shipments of New Zealand dairy produce to west coast ports have increased and now amount to some 25 per cent of the total exports to the United Kingdom. Considerable quantities of Australasian dairy produce are distributed by road and rail to

provincial centres, but the bulk is consumed in the southern part of England. In the south and south-west, Australian and New Zealand butter predominates; in the west and north-west, where Irish supplies are available in the summer, considerable quantities of New Zealand are sold in winter. In the east and north-east and in Scotland, very little Dominion butter is consumed.

New Zealand cheese, which is of the cheddar type, meets the demand for a low-priced article both in the north and in the south of England. The general preference in each district is for the local make, this preference having been confirmed by the war-time requirement that cheese should be consumed as near to the point of production as possible. The bulk of the imported cheddar is taken by the southern half of England, but it displaces English Cheshire to some extent in the north when the disparity in price amounts to several pence per pound.

The reasons for the local variation in the demand for Dominion butter are not far to seek. In the industrial areas of the north, highly-flavoured foodstuffs have long been in demand, and, owing to distance and risk of deterioration, it is impossible at present to provide a high-acid butter from Australasia in these markets. Their relatively low price in recent years has, however, enabled Dominion butters to capture some of the trade in the north.

Very little butter is re-exported from London. Recently, the imposition of a duty by the Irish Free State has effectively excluded winter supplies from Australia and New Zealand. Tariffs and quotas are likewise a bar to Continental trade, though small quantities may go there at times. Australian butter is generally preferred to New Zealand on the Continent on account of its paler colour and fuller flavour.

A gratifying increase in the consumption of butter per capita in the United Kingdom has taken place during the past decade, the figure rising from 14·76 lb. in 1924 to 25·2 lb. in 1934. But this increase has been effected largely by a fall of 50 per cent in price which has enabled British consumers to secure for £35 millions in 1933–34 a quantity of butter which would have cost them £69 millions at the prices ruling in 1929–30. The absorption of the greater supplies of butter has been partly at the expense

of margarine consumption which fell from about 12·35 lb. per head in 1924 to 7·9 lb. in 1934. The great expansion of butter output would have had even worse consequences, if indeed it would have been possible, had there been no substitute to displace. Even now there is room for a further increase in consumption if the standard of diet is to reach the level attained, say, in New Zealand, where butter consumption per head approximates 37 lb. per annum. While it is true that there is a considerable elasticity in the demand for butter in Great Britain, old-standing habits of economy in the use of the commodity still appear to militate against its being more highly valued and more freely eaten by the lower middle and working classes. If the present low prices have an educative effect in that direction, there will be ultimate gain to all concerned. It should be remembered, however, that there are limits to the absorptive capacity of any market and the producing countries would do well to consider that when, with the aid of various direct and indirect subsidies, they press forward ever heavier and heavier supplies.

UNITED KINGDOM

IMPORTS OF DAIRY PRODUCE, 1922 TO 1935[1]

(Years ended 30th June; Amount in tons)

BUTTER

Year	Australia	New Zealand	Total from All Sources (Excluding Irish Free State)
1922	51,688	43,184	188,781
1923	32,850	63,619	229,061
1924	24,007	51,847	224,009
1925	56,193	67,179	277,898
1926	40,454	51,138	256,961
1927	30,216	56,534	261,597
1928	33,582	67,343	247,307
1929	43,121	64,896	290,604
1930	41,157	65,496	294,720
1931	62,356	87,493	337,370
1932	80,981	103,427	394,448
1933	97,447	118,604	424,923
1934	94,400	137,170	460,500
1935	114,494	125,485	446,656

[1] Source: *Weddel's Annual Review of the Imported Dairy Produce Trade.*

CHEESE

Year	Australia	New Zealand	Total from All Sources
1922 .	5,529	69,381	138,535
1923 .	2,769	73,125	138,803
1924 .	1,340	71,615	138,942
1925 .	4,408	71,031	149,362
1926 .	2,875	66,953	151,520
1927 .	1,229	78,673	151,421
1928 .	2,678	84,706	151,037
1929 .	3,959	83,432	153,183
1930 .	1,382	86,462	145,751
1931 .	3,471	96,602	152,888
1932 .	3,347	85,482	144,667
1933 .	5,179	100,677	155,636
1934 .	4,424	102,797	150,829
1935 .	6,831	94,496	143,098

5. The Marketing of Meat

Of the two Dominions, Australia leads in the export of beef and New Zealand in that of mutton and lamb. The beef trade is not in any sense a staple one for either country. In both, a large part of the production is consumed locally, even the surplus-producing State of Queensland absorbing about one-third of its output in addition to supplying over 10 per cent of the requirements of New South Wales and Victoria.[1] In both also, some part of the export consists of cattle from the dairy farms,[2] though in New Zealand beef cattle are grazed in the sheep districts of the North Island, where they assist in maintaining the pastures in good condition by eating off rough feed. The production of young beef is not undertaken to any extent and little is done in the way of cattle-feeding or even of utilizing specially fertile areas for finishing. These areas are not generally available in Australia and in both Dominions they can more profitably be used for dairying. In certain parts of New Zealand, the expansion of the dairy industry since the war has been at the expense of

[1] Cattle slaughterings in New South Wales are roughly equal to those in Queensland, but the latter State furnishes about 80 per cent of the Australian exports of beef.

[2] A considerable trade has developed in recent years in veal from the New Zealand dairy farms. The expansion of dairying has tended to diminish the output of beef cattle, especially in Australia, lately.

bullock-fattening. Drought and tick are responsible for fluctuations in the Australian cattle population and the condition of the pastures determines the number of finished beasts that can be sent forward in any season. In Queensland, and in the northern areas generally, the animals mature slowly on the natural herbage and are drafted to the freezing-works as they attain a suitable size. The average age of the slaughtered beasts is about 4 years as compared with 2½ to 3 years in the Argentine. In the Kimberley district of Western Australia, and in other similar regions, cattle must be drafted to the works at a given time of the year, otherwise they cannot travel the stock routes. At present the average quality of Australasian beef is below that of Argentine, owing to low prices, distance from markets, and the want of stimulus to improved breeding and feeding.

Australia is also at a disadvantage in the mutton trade. Her flocks consist for the most part of sheep bred for wool and not for meat, with large frames and a type of flesh not very acceptable in overseas markets. Until recently, a profitable outlet was found in the Australian cities, where consumers are less concerned about small joints and are not so generally accustomed to the type of lamb produced in New Zealand. Victoria and New South Wales furnish each about 40 per cent of the Australian exports. New Zealand owes her important trade to careful breeding and specialization to suit the requirements of overseas markets, and also to the fact that a steady output can be more easily maintained than in Australia. Climatic conditions, especially on the east coast of the North Island, make it possible to kill more than half of the New Zealand lambs direct from the mothers. These "milk lambs" are of very high quality and in great demand abroad.

Organization of the Meat Export Trade. Practically all the freezing-works in Australia and New Zealand are located at or near the coast, the transport of meat in the live state being considered the more advantageous method. The animals may suffer from bruising while in transit by rail, but risk of loss is less than if dead meat were carried long distances in insulated vans. In some parts of Australia cattle have to be driven to the meatworks over at least part of the route and there is some loss of condition. As roads improve, motor transport is increasingly employed for

the movement of sheep and lambs. New Zealand is more favoured than Australia, since the average rail distance over which stock are trucked is only about 50 miles and seldom exceeds 100, so that the animals reach the works without loss of weight. The number of meatworks is large in relation to the output, owing to the shortness of the killing season.

The actual date of the opening of the season depends upon climatic conditions. Drought may even keep works closed or shortage of feed compel an early opening. In Queensland, the killing of cattle usually begins about March and continues until August. In New South Wales and Victoria, the works commence killing sheep and lambs in the late spring, about September, and continue till about the end of March, the busy months being September, October, and November. The New Zealand season opens later, in November or December in the North Island, and about a month afterwards in the South Island, and continues until August. A few meatworks in the Brisbane district have operated all the year round, but in general the season does not extend beyond six or nine months.

The internal organization of the freezing-works has undergone considerable change since 1930. The "chain" system of handling the animals as in North and South America is now more generally employed, i.e. each beast passes through the hands of several butchers who perform in turn a part of the work of killing and dressing. Until recently in Australia and New Zealand, the butcher usually killed and dressed each carcass. The utilization of certain by-products, such as glandular secretions, is not possible in many cases owing to the small number of stock treated. As might be expected from the extent of the mutton trade, large quantities of tallow are produced and pelts, hides, sliped wool, sausage casings, etc., constitute important sidelines. Some meat is exported in the form of joints, legs, or cuts, these being taken from carcasses which are otherwise of poor quality and furnishing a cheap, yet wholesome, meat ration to certain communities. Canned meat includes portions cut from the carcasses, briskets from Australian cattle being sometimes treated in this way. Boneless beef is usually lean meat from dairy cattle and is boxed for export. In order to comply with the official requirements of

importing countries, parts of carcasses must be such as can be identified as being derived from cattle or sheep. Needless to say, all meat is subjected to rigorous ante- and post-mortem inspection, and much that is perfectly wholesome is rejected for export in order that a reputation for quality may be maintained abroad.

After killing and dressing, the meat is weighed, a certain percentage being deducted to cover shrinkage during chilling and freezing.[1] The dressing of the carcasses is of the utmost importance from a marketing point of view, Australian frozen beef comparing badly with the chilled Argentine product in this respect. On the other hand, the dressing of New Zealand and of some Australian lambs has attained a very high standard. Cattle from the northern areas of Australia have the briskets removed in dressing, the forequarter in this state being known as a "crop." This practice is necessitated by the action of a parasite, *Onchocerca Gibsonii*, which produces worm nodules on the briskets and flanks of the animals, but does not affect the wholesomeness of the meat in any way. The freezing process must be carried out with care, so that the meat will not become misshapen. The beef is wrapped in hessian bags and the mutton and lamb in stockinette covers. Most of the meat being frozen, it can be piled, instead of hung, in the stores and ships' holds, thus saving space.

In the 1933–34 season, technical improvements made it possible for Australia and New Zealand to enter the chilled beef trade. In the absence of any restriction of markets, the Australian beef trade is likely to expand considerably, but some time must elapse before the quality and finish of Argentine beef can be equalled, and here the factor of relative cost is important. The increase of freight (about 1d. per lb.) owing to the fact that the meat must be hung on rails would be more than offset by the increase in the price of chilled meat as compared with frozen (about 2d. per lb.). But the cost of finishing cattle to the Argentine standard would be high in Australia.

[1] In New Zealand, 4½ per cent is deducted from the hot weights of mutton, and 3 per cent from the weight of beef the day following slaughter. Bill of lading weights are based on these and guaranteed to within ½ per cent. The freezing-works weight certificate is final should there be a discrepancy between it and the bill of lading weight.

Handling and Transport. The handling, transport, and storage of meat call for the utmost care, if it is to reach the market in good condition. The New Zealand Meat Board employs special officers to supervise handling and shipment. Want of care may result in torn wrappings, broken shanks of mutton and lamb, and deterioration from exposure. The opening of the chambers from time to time, as the ship proceeds from port to port to complete loading, does not affect meat in the frozen state, and there is little loss nowadays from defects in marine refrigerating machinery. After its arrival, the meat is surveyed for insurance purposes and, when so demanded, for quality. The insurance of meat is somewhat complicated, since different types of policy giving varying degrees of protection are issued. Surveys for the assessment of damage for insurance purposes may be made at the time of discharge or deferred till the meat is in store, the policy usually covering a period of storage at destination. Except when the damage is serious, the whole of the parcel is not examined. The surveyors, one representing the owner and one the underwriters, inspect 10 per cent of the consignment and assess the damage over the whole on the basis of the condition of the part examined. A purchaser who has bought forward may call for a quality survey, if he considers that the meat is not up to the standard stipulated for. Buyer and seller each nominate one arbitrator, and an umpire may be called in if these disagree. If the buyer's claim is upheld, allowance is made; or if over 20 per cent of the consignment is below standard, he may reject the whole on the basis of the market price of the day. Surveys for quality are naturally more frequent when the market is falling than when it is rising, since, in the latter case, the goods are wanted without delay and the buyer is not so likely to be involved in loss. The unsuccessful party to a dispute concerning quality pays the costs (except where the award is 1 per cent or less), an arrangement which protects the seller from arbitrary demands.

Classes of Firms Engaged in the Meat Export Trade. Several types of firm, which may be broadly classified as follows, are engaged in the meat trade. There are first British firms which own freezing-works and have selling organizations, wholesale depots, market stalls, and even retail shops in the United Kingdom.

Second in importance are the Dominion proprietary concerns, which own works and have selling agencies, and perhaps market stalls, in Great Britain. Farmers' co-operative works, of which there are several in New Zealand, employ commission agents in the British market. In addition to all these, a considerable number of export buyers in the Dominions and of importers in Britain who have no interest in meatworks also participate in the trade.

Methods of Disposal Available to the Farmer. One or two of the meat concerns raise some stock of their own, but the majority purchase the whole of their requirements from graziers. In Australia, the latter have not so wide a choice of methods of disposal as they have in New Zealand. In both Dominions, sales are commonly made outright on the farms to export buyers. This procedure is preferable to passing stock through saleyards, as this involves loss of condition, possibility of injury, and, frequently, double railage. In New Zealand the farmer may sell (i) at per head on the farm, in the saleyards, or at the works, or (ii) "on the hooks," i.e. at per pound dressed weight. The works usually issue price schedules from time to time throughout the season. If he is not satisfied with the prices offered, the farmer may have his stock treated and consign the meat on his own account. This last alternative is not now much availed of, the bulk of the meat being purchased by the works, by export operators, or by the agents of importers overseas.

Commercial Activities of the Meatworks and Exporters. Proprietary works, owned either by British or Dominion companies, are engaged mainly in purchasing and treating stock for their own account, though they may also kill and freeze on behalf of clients. In order to keep their works profitably employed, the co-operatives are compelled to buy like the private concerns, instead of confining their activities to treating stock for farmers or for exporters who have purchased from the latter.

The disposal of the meat after treatment is undertaken in a great variety of ways and it is not possible to give more than a brief indication of the chief methods by means of somewhat simplified illustrations. The whole process is assisted, as indeed dealings in other markets are, by the constant interchange of

information relating to conditions in the producing countries and in the overseas markets. Long before the killing season begins, stock buyers are busy in the country districts forming opinions as to the numbers that will be available. From this information the works are able to estimate their probable output and overseas interests, which have advices from other sources of supply as well, can form some idea of the level of prices for the early forward sales. Offers may be made to farmers and some sales may be effected at this stage, but all the parties usually prefer to wait until some more definite opinion as to probable London prices can be arrived at. Upon this opinion will depend what the works and other exporters will offer for stock, though the works must have animals to treat and their buyers may be instructed to do the best they can, following the market in order to obtain a share of the available supplies. On the basis of prices for stock, actual and anticipated, offers may be cabled to principals or agents in London of stated quantities to be shipped in specified months. The London office endeavours to "place" the parcels with importing and other firms at or above the price named. If the trade is not interested in meat at that price, then the works will be advised of the highest offers and will instruct its buyers accordingly. In arriving at the price which it will pay to give for stock, the works management will take into consideration the current values of wool, pelts, hides, tallow, and other by-products.[1] In some seasons these may yield enough to cover most of the cost of killing, freezing, packing, and putting the meat f.o.b. steamer. If the works can secure enough stock at payable prices, its difficulties are at an end, but it has always to reckon with the farmer's willingness to sell and with the competition of other export buyers. The importer who has bought forward at the beginning of the season assumes considerable risk and must be largely dependent for protection upon his knowledge of what other firms are doing. In any case, the business is always highly

[1] There are certain customs of the trade in regard to by-products. These vary somewhat, but in New Zealand the uniform practice is that when the exporter takes lambs to the works to be treated and shipped on his own account, he retains the wool, pelt, and fat, but the tongue, kidneys, casings, bone, and blood become the property of the works. The value of the latter items is taken into account in fixing the rate charged for treatment.

speculative, since the market may move in any direction between the time the meat is purchased and its arrival.

Once some definite indication has been obtained of prices ruling in London, the works can proceed with the season's operations with greater security. Continuous cabled advice serves as a guide in buying stock, though the risk remains considerable. As meat becomes available, it is offered to the trade overseas as already described or is shipped according to instructions, when it is owned by a concern having its own distributing organization. Meat may be shipped unsold, and in such cases, it will probably be directed, on London advice, to the destination where it is likely to make the best price. The exporters, of whatever class, must see to their freight arrangements in advance when selling f.o.b. or c.i.f., so that they can specify the month of shipment. The New Zealand Meat Board is represented along with the shipping companies on a Shipping Allotment Committee, which apportions freight space in advance, and a similar move is under consideration in Australia.

The nature and extent of the export operations of any individual or concern will depend upon financial resources. The large firm, owning works and a selling organization, can usually afford to continue buying each season, relying upon making a profit over a series of years.[1] A firm or individual with small capital may easily be put out of business, however, unless great care is exercised, and when markets are disturbed their difficulties are increased, as they must come into and go out of the buying at the right times. Some export operators are merely local speculators with a knowledge of the trade, who come and go, enlarging the scope of their business when their dealings are profitable and dropping out when losses are heavy.

The British Market. All the activities of the meatworks, the export buyers, and farmers or other owners consigning on their own account are closely bound up with operations on the British market and especially with dealings on Smithfield. A brief review of the types of transaction in meat will serve as some indication

[1] Such firms probably lost heavily in the early years of the depression owing to the almost uninterrupted decline in prices, for their offers for stock were regularly too high.

of the way in which the trade is carried on, though it is impossible to elucidate all its complexities. Sales are sometimes made f.o.b., in which case the buyer, having paid the freight, is entitled to dispose of the goods again while they are in transit. C.i.f. sales are more common and may be effected at any stage—even before the animals are bought—up to the arrival of the vessel. For all sales, certain particulars such as month of shipment or steamer's name, quality, and weights, etc., are furnished. The fact that various qualities are usually included in a parcel is important in many respects. For one thing, the works or other sellers hope by this means to pass on the stock as it was bought, the heavier grades along with the lighter. On the other hand, the buyer has to consider whether he will have a profitable outlet for any carcasses included in the consignment that are not suited to his trade. When the vessel arrives, the seller, who has previously sent an invoice to his buyer, takes up the documents from the bank. These include the bill of lading, freezing-works certificate that the goods were properly frozen, etc., before shipment, and the insurance policy. Upon payment of the amount of the invoice, the buyer secures the documents and obtains delivery from the ship. Disputes may easily arise out of forward sales, and, in order to minimize these as far as possible, c.i.f. contracts are governed by the rules laid down by the Imported Meat Trade Association. Should the weights at the ship's side or at the cold store show a loss of more than ½ per cent on the bill of lading weights, the seller credits the buyer with the whole of the shortage. Sales "ex ship" differ little from those made c.i.f. The seller presents the bill of lading to the shipping company and issues a delivery order in the buyer's favour. Such sales are usually made when an importer or selling agent prefers to take the market price of the day rather than store the goods. The "ex ship" price will be the day's market price, less the cost of delivery to the store and of the first month's storage. Much meat is sold from the stores. When the sale is "ex store," the buyer takes delivery there and may spread his withdrawals over a period agreed upon at the time of sale, storage charges on any balance remaining beyond that time being for the buyer's account. Stored meat may also be sold on terms requiring the seller to

deliver it to the market and place it on the buyer's stall. From the stall, sales are made to retailers.

A great variety of buyers and sellers is concerned in the transactions just discussed. Some of the traders are engaged in dealings both on Smithfield and through extra-market channels; and some confine their activities to the one or the other. Smithfield is, in fact, not merely a wholesale meat market, but also an exchange where titles to goods in store or in transit are bought and sold. The concern which owns meatworks at one end and depots, market stalls, and shops at the other combines within itself the four functions of importer, jobber, wholesaler, and retailer. The importers are of various kinds. The London house may be the head office of a firm having works in several parts of the world or it may be the selling agency of Dominion firms which own works in Australia or New Zealand and may also operate market stalls on Smithfield. Again, the importer may be a London concern, buying in the Dominions on its own account or acting as agents selling on commission for co-operative works, farmers, and other owners. Sales are made by the importers to jobbers who are of two kinds—stall-holding jobbers and extra-market jobbers. The stall-holding jobbers sell to retailers in competition with the importers' stalls, and are able to survive because they create goodwill by catering for the special needs of customers, by cutting up meat to suit them,[1] and by giving longer credit. Jobbing is also done by traders having no stalls. These extra-market jobbers buy from the meatworks or their agents and sell to stall-holders or others, using their knowledge of the trade in order to employ a small capital to advantage. At times merchants who usually transact their business wholly outside the market may engage in jobbing and Dominion firms owning stalls are compelled to turn to this branch for certain periods at least owing to the seasonal nature of their trade.[2]

It will be evident from the foregoing that only a portion of the Australian and New Zealand meat is actually pitched on the

[1] Most stall-holders, particularly since the war, cut up meat to suit their customers.

[2] Combination of commission selling with selling on own account is little known, since commission salesmen need to have stalls of their own to be able to do both.

market stalls. Complete figures are not available, but the tendency seems clearly to be in the direction of selling otherwise than through the market. In 1925, just over 50 per cent of the total New Zealand mutton and lamb landed in the United Kingdom was pitched on Smithfield and by 1931 the percentage had steadily declined to 40·9 and is still falling.[1] For Australia the percentage of pitchings to landings was in 1931 23·4, as compared with 27·2 for South American supplies. In the same year, the percentage of pitchings of beef to total landings in the United Kingdom were 16·1, 13·5, and 36·8 for New Zealand, Australia, and South America respectively.

Distribution of the Trade in Great Britain. As will be seen from the figures given on this page, the bulk of the meat from

PORTS IN GREAT BRITAIN AT WHICH IMPORTS OF AUSTRALIAN AND NEW ZEALAND MEAT WERE DISCHARGED[2]

ANNUAL AVERAGE, 1926 TO 1930

(Mutton and Lamb stated in carcases; Beef in quarters)

Ports	Australia			New Zealand		
	Mutton	Lamb	Beef	Mutton	Lamb	Beef
London	342,089	1,153,092	393,112	2,014,757	4,632,531	102,222
Liverpool	164,931	302,540	182,829	129,212	616,286	40,404
Southampton	573	4,544	2,132	38,130	147,232	178
Newcastle	1,389	1 228	4,295	—	—	—
Hull	4,509	7,511	16,430	165	907	171
Avonmouth	2,780	22,820	3,780	42,507	198,265	6,581
Cardiff	1,220	14,454	2,601	293	12,842	1,120
Manchester	5,795	16,799	5,348	738	8,724	188
Glasgow	2,139	2,946	2,403	11,636	18,081	11,756
Totals	525,425	1,525,934	612,930	2,237,438	5,634,868	162,620

AVERAGE PERCENTAGE OF MEAT DISCHARGED ANNUALLY AT LONDON

1926 TO 1930

Australia			New Zealand		
Mutton	Lamb	Beef	Mutton	Lamb	Beef
% 65	% 75	% 64	% 89	% 82	% 62

[1] Report New Zealand Meat Board, 1932, p. 5.
[2] From figures supplied by Messrs. Weddel & Co.

Australasia is discharged at London, though the proportions are not so high as in the case of dairy produce. Most of the balance goes to west coast ports, Liverpool being the chief. Discharge at a given port does not necessarily mean that the meat is consumed in the neighbourhood, as, owing to market conditions, it may be despatched to other areas or even be sent on to London. Before the ship arrives at an outport, an effort is made to sell the meat, so that it can be delivered direct by road or rail to provincial wholesalers. If it is not sold, it may be stored at the port or at some centre which is convenient for later distribution. Where meat is put out will depend partly on the shipping services available, partly on the owner's decision before shipment, and partly on the class of trade in the district. Thus Southampton is a regular port of call on the Panama route from New Zealand and Hull is frequently visited by insulated cargo liners to discharge wool. Boneless beef is much in demand in Glasgow, so that direct shipment to that market is advantageous. A good deal of meat is necessarily distributed by road and rail from London for consumption in neighbouring areas.

Continental Trade. Considerable quantities of Australian and New Zealand frozen beef go to Continental countries, where a demand grew up after the war and promised to attain much greater proportions than have actually been realized. Lean beef mainly is required for this trade, though better qualities are coming into favour. Australian meatworks generally have a special brand or grade for this market, the beef being known as "Second Fair Average Quality" or "Continental" or "Italian" quality. Mutton is not so much in demand on the Continent, where many consumers find it unpalatable. The prospects of increasing this trade are not encouraging; since apart from the obstacle of economic nationalism, local production is considerable, quick-maturing meats, such as pork and veal, are largely eaten, and the amount of waste is not nearly so great as in Britain.

Market Fluctuations. The supply of meat cannot be readily adjusted to the demand. Several years may be required to effect a change in the output of beef, and the amount of mutton and lamb that is available at any time is partly dependent upon the price of wool. When it is high, the supply of meat falls off, and

when wool values recede, the supply tends to increase, sometimes very rapidly.

Smithfield prices of beef follow a rather erratic course during the year, owing to the special characteristics of the chilled beef trade. The chilled article must be disposed of soon after arrival and prices may have to be cut heavily at times owing to some slight falling off in demand or the arrival of ships close together. The price of frozen beef then moves in sympathy. In recent years prices have ruled sometimes relatively high, sometimes relatively low, in summer and in some seasons there has been very little movement throughout.

The price of New Zealand lamb, however, appears to follow a fairly regular course each year.[1] There is a fall in February and March, after somewhat high prices paid in January for the early shipments of the new season's meat. Thereafter the market continues fairly steady throughout the summer, having a downward tendency towards the end of the year, when the first lambs from Australia become available.

6. Co-operative Marketing

The discussion which follows is intended to deal with co-operative enterprise as it is generally understood, those special marketing control devices, which some claim as co-operative, having already been considered. In Australasia, agricultural co-operation is not so widely practised as is sometimes thought, and no apostles of the movement have appeared as, for example, in Denmark and the U.S.A. The co-operative form is frequently met with and may even be said to be typical of certain rural industries, but the co-operative spirit is often lacking. The reasons for this are not far to seek. Farming having been regarded as a means to an end rather than as a way of life, there has been a considerable degree of instability in rural population. Quite frequently, too, the co-operative form was dictated by the conditions attending rural development. At the time when new areas were being brought into production, it was not always possible for private enterprise to provide processing plants. In some cases, state loans to co-operative associations assisted the movement,

[1] See price curve for New Zealand lamb on page 216.

though reliance upon governments from time to time has no doubt tended to weaken it. The proprietary factory is still common, many co-operators regarding it as a useful check upon the efficiency of their own organizations, an efficiency which they ought rather to ensure by active interest in their own societies. Many of the so-called co-operative factories are prepared to deal on equal terms with non-members and in some voting power varies widely according to the amount of capital subscribed by each individual. The survival of the private concern is as much owing to the difficulties of co-operative management as to the individualism of the farmer. Many members (or even potential members) of a co-operative feel that they can exert no real influence in its control, while others make their sense of proprietorship a positive embarrassment to the management. Under such circumstances co-operatives may resemble somewhat a pantisocracy and cannot hope for success. The proprietary concern, however, can discipline its clients (if the term is applicable) in ways which the co-operative dare not attempt, for they will generally concede to the private firm the right to manage its business in its own way. Even those who are loyal to their co-operatives tend to regard them solely as instruments of direct economic advantage. There may, indeed, be competition between co-operative factories, the existence of which explains the lack of capacity to build up co-operative amalgamations in certain directions. It is perhaps also possible to explain on similar grounds the want of enthusiasm for co-operation among Australian economists who appear to think its existence can be justified only by financial results. The "better business," to use Sir Horace Plunkett's phrase, to which co-operation should lead is taken to mean "better profits" and not to include better ways of doing business.[1] This view, however, represents a fundamental conflict of opinion. Many believe that something can be done to

[1] See, e.g. a strongly anti-pool article by Dr. G. L. Wood, of Melbourne, in *Economic Record Marketing Supplement*, 1928. The judgment of the British Economic Mission to Australia was less severe. It commented that the co-operatives were both more numerous and less efficient than they should be, a criticism which might be applied at almost any time to any form of economic enterprise anywhere. (See Report of British Economic Mission to Australia, p. 37. Commonwealth Parliamentary Papers, 1928, Vol. II, p. 1231.)

organize producers' marketing on co-operative lines without limiting the beneficial play of competitive forces, and as many are convinced to the contrary. Yet it is certain that co-operative organizations frequently confer unacknowledged advantages upon non-members, just as the earnings of a wage-worker may be high because there is a trade union and he is not in it.

Except as regards the wheat pools, it is possible to give but a very cursory account of co-operative marketing in Australasia, since adequate information is only to be had by first-hand inquiry.[1] The main features will, however, be sketched, with the addition of such details as are available.

Co-operative Marketing Through Central Processing Plants. The co-operative factory for treating agricultural products first appeared in the late 'eighties. Such enterprises now include sugar-mills, dairy factories, fruit canneries, bacon factories, meatworks, and fresh fruit and dried fruit packing sheds. In the case of the first four, the method of operation is very similar. The supplier's product is weighed, graded, tested, etc., on delivery, loses its identity, and is paid for at current rates according to quantity and quality. If any additional amount is available after the sales have been finalized, it is paid out in the form of a bonus. Where working profits are made, they may be distributed as interest on share capital or retained in the business. The meatworks and fruit-packing sheds treat products on behalf of members and others, the actual marketing being frequently left to the individual owners, though the co-operative may undertake the work as agents, a much looser relationship than that which subsists between dairy co-operatives and their members.

In Queensland, two co-operative sugar-mills were started with

[1] The following are among the printed sources of information available: (i) List of co-operatives in *Year Book of Agricultural Co-operation*, 1929; (ii) N.Z. Annual List of Dairy Factories; (iii) Queensland: Report of Registrar of Co-operative Associations registered under the Primary Producers' Co-operative Associations Act; (iv) Electoral Rolls for the Australian Dairy and Canned Fruit Boards; (v) *Commonwealth Year Book*. The last gives the total number of co-operatives engaged in the manufacture and marketing of primary products and trade requirements. In 1927–28, there were 249 producers' co-operative societies, as defined, with a membership of 120,388 and a gross turnover of £23,689,704. Some information regarding the development of co-operative enterprises is given in H. L. Wilkinson—*State Regulation of Prices in Australia* (1917.)

state assistance as far back as 1887.[1] Since that time, the number of such mills has increased to fifteen, all of which have had the benefit of special legislative provision.[2] The co-operatives have confined their activities to cane crushing, refining being almost entirely in the hands of a long-established and powerful private company.

Co-operation is the rule in the dairying industry, though this has not always been so. For example, the co-operative factory did not appear in Queensland until 1901,[3] nor until about the same time in the north-west of Tasmania.[4] In the former State, with the exception of a few skimming stations which were then common, proprietary companies controlled the fifty-three butter and cheese factories that were in operation at the turn of the century. Twenty-four years later, there were only four private butter companies, as against twenty-nine co-operatives; and thirteen private cheese companies as compared with thirty-seven co-operatives. The co-operative butter companies operated fifty factories and the co-operative cheese companies eighty-one. In 1924, nearly 70 per cent of the butter factories in New South Wales were co-operative and produced over 90 per cent of the butter made in the State. The co-operative dairy companies are also predominant in Victoria and in Tasmania. Over 80 per cent of the total output of dairy produce in the four eastern states is of co-operative manufacture. In South Australia, where dairying is less important, the private factory has about 60 per cent of the butter trade, but in Western Australia, there is an important co-operative concern in the south-west district. In New Zealand, 90 per cent of the cheese factories and 75 per cent of the butter factories are co-operative, as are practically all of the dual plants. For the year ended 31st March, 1931, 91·6 per cent of the butter and 98·3 per cent of the cheese forwarded for export was from co-operative concerns.[5]

[1] Queensland: Parliamentary Papers, 1925, Vol. II, p. 271—Report of Department of Agriculture, 1923–24, p. 9.

[2] E.g. the Sugar Works Guarantee Act, 1893, and later statutes.

[3] See note (1) above.

[4] Tasmania: Journals and Papers of Parliament, Vol. LXXXVII, 1922–23, Paper No. 8—Report of Department of Agriculture, 1921–22, p. 1.

[5] See N.Z. Annual List of Dairy Factories, etc., from which the above figures are compiled. *Total* output of the co-operatives is not stated.

In Australia, co-operative canneries process the major part of the output of tinned pears, peaches, and apricots.[1] There are three co-operatives in Victoria and one in South Australia as against fifteen proprietary enterprises. Of the 1927–28 pack, the co-operatives handled over 63 per cent and, together with the New South Wales state cannery, furnished 92 per cent of the export. From these figures it will be clear that the less remunerative trade has been left largely to the co-operatives. This is due to the fact that they confine their attention to fruit and have not built up a local goodwill after the manner of the private companies.

In the meat industry co-operative enterprise is not very common. For one thing, many of the graziers are men of substance; for another, large capital is required, so that many of the semi-co-operative concerns in New Zealand depended largely when they were formed upon the financial backing of land companies, banks, and stock and station firms. In that Dominion, out of a total of thirty-five works operating in the 1930–31 season, eleven belonged to farmers' companies, though their financial organization and their method of operation were similar to those of the private firms.[2] The latter, indeed, as in Australia, handle the bulk of the meat that is exported. In Victoria, a co-operative freezing-works was established in 1911 at Murtoa and similar works at Ballarat, Bendigo, and Donald in 1920.[3] It was hoped, in view of the favourable conditions at the time, that the establishment of these inland works would prove of great benefit to producers, hitherto dependent upon private companies operating at Melbourne, Geelong, and Portland. These co-operatives were unable to weather the slump and were subsequently re-organized with state financial assistance as an amalgamated concern. Their difficulties were due in part to faulty marketing methods and to failure to establish efficient

[1] See Report of the Development and Migration Commission on the Canned Fruits Industry. (Commonwealth Parliamentary Papers, 1929, Vol. II, p. 1595.)

[2] In the N.Z. Statistics of Factory Production, 1928–29, only two meat-works are given under the heading "Co-operative and Miscellaneous."

[3] Victoria: Parliamentary Papers, 1927, Vol. II, p. 1. Second (Final) Report of Royal Commission appointed to inquire into the Amalgamated Freezing Co.

representation in London. Some of the works have now ceased to operate and the others operate under a state financial guarantee.[1]

Fresh fruits, such as apples and pears, are usually graded and packed by the growers themselves. In Tasmania, the principal apple-growing State, co-operation in fruit marketing has not made great progress. Orchardists have depended upon a local private concern for their shipping arrangements and upon London fruit brokers for marketing. Some stimulus was given to co-operative packing in 1918, when fourteen sheds were started following the appointment of a government officer to organize and standardize grading and packing. Recently, the South Australian Fruit Marketing Association was formed to organize the growing, packing, and marketing of fresh fruits and to furnish supplies of packing and other materials to growers.[2] This Association had in 1929 a membership of 185 and was responsible for 68 per cent of the apple exports. In New Zealand, though the export trade is largely a post-war development, organization is more complete. In 1916, the local associations of fruit-growers were combined into the New Zealand Fruit Growers' Federation, which includes fifty affiliated bodies. Central packing sheds are not general, but the Federation makes bulk purchases of spraying and packing materials on behalf of members and, until recently, arranged for the shipment of fruit. This work of shipment is now undertaken directly by the Fruit Board. For Australian vine dried fruits co-operative (as well as private) sheds exist in which fruit is processed and packed, its grading and preparation generally being supervised by the Australian Dried Fruits Association.

Co-operative Marketing Through Central Associations. Considerable quantities of farm produce are disposed of both for local consumption and for export through central associations and at auction marts in which producers' co-operatives conduct sales. Fresh fruits, potatoes, onions, and the like are marketed in some Australian States either through or subject to the control of

[1] Victoria: Freezing Works (Overdraft Guarantee) Act, 1932.
[2] South Australia: Proceedings of Parliament and Papers, 1929, Vol. II Paper No. 43—Report of Department of Agriculture, 1928–29, p. 44.

growers' associations. Egg circles are common, these collecting, grading, and packing for their members, and arranging for export where necessary to relieve the local market. In 1921, the New Zealand Co-operative Honey Producers' Association was formed to organize overseas marketing, but has since been dissolved, its work now being performed by an Export Board. A New Zealand Co-operative Pig Marketing Association has recently been formed, but its operations are not yet very extensive. A certain amount of wool-broking is undertaken by co-operative concerns. In New Zealand, these are chiefly farmers' co-operative freezing-works, there being few co-operative concerns in Australasia that specialize in the handling of wool. The following figures indicate the share of the wool-broking business that fell to co-operatives of all kinds in the 1930–31 season[1]—

CO-OPERATIVE WOOL-BROKING COMPANIES

Country	Number	Bales Handled	Percentage of Total Sales
Australia . .	7	391,637	15·8
New Zealand .	10	75,290	16·5
Australasia . .	17	466,927	15·9

Rural Co-operative Organization Societies. A special type of organization which has been evolved in recent years is the Agricultural Bureau. The bureau movement is found in Tasmania and in New South Wales. In Tasmania, it was created as the result of a recommendation by the Commonwealth Development and Migration Commission. There is a State Council with District Councils, their function being to advise regarding the various sections of rural industry through special committees, and to foster agricultural co-operation by financial and other aids.[2] In New South Wales, the Agricultural Bureau (founded in 1911) is the result of the efforts of the Department of Agriculture.[3] Its aim is to make the farming centres "little co-operative worlds in themselves, organizing social, technical, commercial,

[1] Compiled from information contained in Dalgety's *Annual Wool Review*, 1930–31.
[2] Tasmania: Parliamentary Papers, Vol. CI, 1929–30, Paper No. 12—Report of Auditor-General, 1928–29.
[3] See *New South Wales Official Year Book*, 1928–29, p. 570.

farming, and buying and selling activities." The movement is not very directly concerned, however, with marketing.

Marketing Through Co-operative Distributing Companies. In some cases, a co-operative association controls only one factory and markets the output through a commercial agent; in others, several factories may be under the one association, but employ the same marketing channel as the single unit. Recently, however, both in Australia and in New Zealand, the movement towards the amalgamation of co-operative associations has been gaining force and, in the former Dominion, the marketing of produce through co-operative selling organizations has long been in vogue. In 1919 and 1920, three large co-operative dairy companies in the Waikato district were amalgamated as the New Zealand Co-operative Dairy Co., which now handles one-quarter of the total dairy produce of the country. Similar amalgamations have been effected both before and since in Australia, the most important concern being the Norco Co-operative Ltd. of New South Wales, which controls one-third of the butter output of that State. Amalgamations have resulted in many economies and in a certain amount of integration by the establishment of subsidiary concerns for box-making, coal-mining, insurance, and the supply of fertilizers and of factory requisites. With the growth in size of the co-operatives, more and more attention has been devoted to the marketing side and special organizations for this purpose have been developed. These producers' distributing companies are in some cases the selling agencies of single large co-operatives; in others, they undertake marketing work on behalf of affiliated associations and occasionally for individual producers. Even before the war, the three large Victorian co-operative societies arranged their own shipping, were represented in England by importing firms, and had each its own marketing supervisor in London. These societies continue to work in this way, in addition to having their own selling floors in Melbourne for the local trade, and their turnover has been as high as £4½ million per annum. In Queensland, there are two large co-operative distributing companies, one dating back to 1905. They are mainly concerned with the local and export trade in dairy produce, but have also handled small quantities of fruit, honey, eggs, and

vegetables. New South Wales has also two large wholesale co-operatives which deal with about 75 per cent of the dairy produce of the State. One of them, the Producers' Distributing Society, has an annual turnover of about £5 million. South Australia and Western Australia have each one large co-operative marketing concern. Prior to 1914, there was little co-operation of any kind in the latter State. In that year, the central organization, Westralian Farmers Ltd., was formed and has since grown and flourished. This concern acts both as a marketing agency, especially for wheat, and as a supplier of farm and household requisites, fertilizers, etc. A large number of country co-operatives which are engaged mainly in the retail store and agency business are affiliated with the central body, as is also the South-Western Co-operative Dairy Products Co. In 1918, the Australian Producers' Co-operative Federation Pty. Ltd. was formed by twelve of the large producers' distributing companies, having an aggregate annual turnover of about £30 million, and handling dairy produce, wheat, wool, and a small amount of meat. The object of this federation was to establish a collective marketing and buying agency in London and to link up with producers' organizations in other parts of the British Empire. The outcome was the formation in London of the Overseas Farmers' Co-operative Federations Ltd., whose activities will be discussed later.

In New Zealand, large-scale co-operative marketing was not developed until after the war. As far back as 1893, a National Dairy Association was formed for the North Island and also a South Island Dairy Association. These bodies, however, confined their attention to the shipping of produce and to the supply of goods and machinery required in manufacture. The two Associations continued to do much of the shipping work for the Dairy Board until recently, and they have now been reorganized as one body concerned only with the supply of requisites. Proposals were frequently put forward through these associations for a comprehensive marketing organization, but they were never brought to fruition. A visit by delegates from the English Co-operative Wholesale Society resulted, however, in the formation of the New Zealand Producers' Co-operative Marketing Association in 1920. About 100 co-operative dairy factories are

affiliated with the Association, which is represented in London by the New Zealand Produce Association Ltd. This concern comprises the New Zealand Co-operative Marketing Association and the Co-operative Wholesale Society, each owning one-half of the share capital. The Produce Association has an office in Tooley Street and a stall on Smithfield. Its turnover in 1920–21 was about £¾ million and in 1929 exceeded £2 million. The amount is not large in view of the total value of dairy produce exported annually and the Association does not appear to have received adequate support. The C.W.S. is not compelled to buy from the Produce Association, nor is the Association required to sell to the society, which may buy wherever prices are lowest. A somewhat similar marketing organization was formed by the New Zealand Co-operative Dairy Co., whose London agency is known as Amalgamated Dairies. Half of the share capital of the latter is owned by the co-operative and the remainder by two individuals, one of whom was until lately the managing director of the co-operative and the other the manager of Amalgamated Dairies. Recently, a move has been made to place this selling agency on a more truly co-operative basis. Amalgamated Dairies, which is prepared to handle consignments from any co-operative factory, sells produce through seven Tooley Street agents and also through a subsidiary, known as Empire Dairies. Amalgamated Dairies names the price at which the agents sell from day to day, audits their account sales, and receives daily returns of sales and of stocks on hand. An unsuccessful effort was made to bring the New Zealand Produce Association and Amalgamated Dairies together. The Association believed that it was being asked to concede too much and the C.W.S. was averse to becoming a partner in an organization that was not purely co-operative.

The Co-operative Wheat Pools. The history of the Australian wheat pools down to the early post-war years has already been traced. Since then, voluntary pools have continued to function in Victoria, South Australia, and Western Australia, and one operated in New South Wales until the 1927–28 season and has since been revived. The persistence of pooling is perhaps remarkable in view of the unfavourable circumstances prevailing during the years when it was first resorted to. The post-war pools have

enjoyed advantages in certain respects. They had the benefit of state guarantees of their advances from banks,[1] and the co-operative which manages the pool in Western Australia was for four years the sole agent for the receipt and handling of wheat when compulsion was the rule. Furthermore, the pools took over certain existing organizations. The Victorian Wheat Growers' Corporation Ltd., as the pool is designated in that State, absorbed a Melbourne and a London firm, thus acquiring its own selling subsidiary in the latter market. The South Australian Co-operative Wheat Pools Ltd. and the Co-operative Wheat Pool of Western Australia are both represented in London by the Overseas Farmers, which charters freight and sells grain on their behalf. This London distributing co-operative had also taken over a merchant firm, so that the pools have secured the services of experienced traders in what was probably the wisest way. Though three of the pools operate through the same London agency, there is no common marketing policy, for all three Australian pools work independently.

The pool organization is simple. For a number of years, there were no contracts with members, but South Australia in 1927 and Victoria in 1928 instituted this system and now each requires that a given percentage of the total crop in the State shall be contracted in advance to the pool, if it is to operate. Prior to this a grower might pool a part of his wheat and sell the remainder elsewhere, but he now contracts the whole of his wheat for a period of three years. In Victoria, only *bona fide* wheat-growers may take up shares in the pool, the minimum amount being £10 and the maximum £200, and this pool draws wheat from such parts of South Australia and New South Wales as would normally market through Melbourne. In Western Australia, the pool has no capital stock and there is no contract, but growers are asked to sign promise forms before harvest.[2] The fact that the pool in this State is associated with vigorous central and local co-operatives

[1] See Commonwealth Wheat Pool Advances Act, 1923; N.S.W. Voluntary Wheat Pool Guarantee Act, 1924; S. Australian Voluntary Wheat Pool Agreement Ratification Act, 1924; Victorian Wheat Growers' Corporation Act, 1921; Victorian Wheat Growers' Corporation Ltd. (Government Guarantee) Act, 1925.

[2] The trustees of the pool are elected by a Growers' Council. See Wheat Pool Act, 1932.

and that local committees are active in the pool interest has done much to ensure its success. While it is true that the underlying spirit is more important than the contract, the existence of the latter enables the management to proceed with greater confidence. If the contract is irksome, or if it is often broken, that is evidence, not that the system is unsound, but that there is a want of zeal for co-operation. Since the 1924–25 season, the pool in Western Australia has been financed by the banking department of the English Co-operative Wholesale Society, the latter also providing advances to South Australia for a time. The pools in that State and in Victoria now use the Rural Credits Department of the Commonwealth Bank. In Western Australia, as for a time in New South Wales, wheat is also marketed co-operatively alongside the pool. The pool organization is a separate body, but works in close association with Westralian Farmers Ltd., which has a department trading in wheat in the same manner as the private merchants. The pool is protected by agreement from being prejudiced in any way by the fact that the management is the same in both cases; there is even a gain to the pool, as it is credited with the natural increase in the weight of all the wheat which passes through the co-operative's hands. The wheat pool and Westralian Farmers are also joint owners of a subsidiary, Australian Out-turns Ltd., which superintends the discharge of the wheat they ship to the United Kingdom.[1]

The aim of the wheat pools is organized marketing. They are right in the view that the farmer does not know when to sell and that he has no means of knowing what the London parity is at any time.[2] The average producer is, in fact, no more competent to determine whether he receives full value for his goods than is the average consumer able to judge whether he is getting value for his money. Both are supposed to be protected by the play of competitive forces, but these do not work freely, especially when one party is largely passive and has not access to the kind

[1] *Westralian Farmers' Gazette*, 15/1/31. Out-turns of shipments elsewhere, e.g. India, are not superintended, wheat being sold on a government certificate as to weight and quality at the port of shipment.

[2] E.g. in the 1930–31 season, many who had stored wheat in the hope of selling at a favourable time, found themselves at length obliged to refund part of the advance made to them, so much had the price fallen.

of information he needs to possess. The advocates of pooling believe that it is better for all growers to share in equal measure the gains and losses due to price fluctuations and that, if each ceases to fight for his own hand, the economic and social results will be improved. It has been argued against this that, over a series of years, competitive selling will achieve the same end, but this is not necessarily true, since an individual farmer may receive a relatively low or relatively high price season after season, according as he is fortunate or otherwise in judging the time to sell.

Generally speaking, the Australian pools, unlike the Canadian, have made no attempt to pursue the fatal policy of holding up supplies.[1] Even if they could secure control of the whole harvest, they would be unable to exercise any great influence upon prices, except when their particular wheat was in strong demand for special purposes such as blending. Yet the selling policy of the pools is not identical with that of the merchants. The former do not sell so freely when the market is weak and the price low and they are led to assume this risk because it is the total price that is important to them and not the margin, as in the case of the merchant. In this respect, the pools are probably doing what the individual farmer would himself be disposed to do, though with a greater prospect of success.

Exact statistical information is available regarding the turnover of the pools and the prices they have been able to secure for the farmer.[2] It will readily be seen that Western Australia is the only State that can claim any large measure of success for co-operative selling. Since the initiation of the voluntary pool there and of the co-operative marketing system or warehousing scheme, the proportion of the marketable harvest handled by the co-operative organizations has never fallen below 57 per cent and has been as high as 77 per cent.[3] Since volume of business is the

[1] Approximate wheat stocks in Australia on 1st August in each year, 1922 to 1930, were, in millions of bushels: 18; 28; 26; 23; 17; 23; 29; 26; 35. There has been some recent withholding of supplies owing partly to very low prices.

[2] See tables on opposite page.

[3] The percentages of the total marketable wheat harvested in the State handled under the co-operative merchanting scheme from and including 1923–24 have been: 17; 23; 31; 12; 11; 8; 15; 12.

I. Summary of Receivals by Pools, 1921–22 to 1933–34[1]

Wheat Received (Bushels) and Percentage of Total Marketable Wheat

Season	N.S.W.	Victoria	S. Australia	W. Australia
1921–22 .	22,784,329 58%	32,100,000 78%	7,842,788 36%	11,788,162 (*a*) 96%
1922–23 .	11,650,523 48%	20,000,000 66%	10,072,909 44%	9,349,115 81%
1923–24 .	9,681,154 33%	18,500,000 60%	10,324,875 33%	7,278,833 40%
1924–25 .	13,639,420 25%	15,124,792 34%	3,439,809 12½%	9,300,000 45%
1925–26 .	740,600 (*b*)	3,618,026 (*b*)	5,395,733 (*b*)	6,000,000 35%
1926–27 .	8,848,900 25%	20,000,000† 50%†	8,951,024 30%	17,933,863 65%
1927–28 .	1,042,123 5%	2,762,745 12%	5,075,571 25%	17,267,000 53%
1928–29 .	No Pool —	11,701,000 28%	10,124,108 44%	17,400,000 58%
1929–30 .	No Pool —	9,835,000 55%	6,984,000 36%	16,003,459 46%
1930–31 .	15,312,000 26%	31,006,000 (*b*)	17,889,409 60%	24,146,000 48%
1931–32 .	871,581 1·6%	16,550,000 39·4%	10,522,125 24%	15,220,211 42%
1932–33 .	415,240 0·5%	15,793,000 33%	7,075,370 19%	12,550,000 34%
1933–34 .	109,874 0·2%	6,637,290 15·6%	5,541,752 18%	12,433,152 33·1%

(*a*) Compulsory pool. (*b*) Percentages not available.
† Estimates for Victoria in 1926–27.

II. Differences in Prices Paid for Wheat by Pools and Open Market (Pence per Bushel)[2]

Note. The amounts entered under the headings "Pool" or "Open Market" (O.M.) are the differences in favour of one or the other, except in the case of Western Australia, where the actual average prices per bushel paid by each of the marketing groups are given.

Season	Victoria		S. Australia	N.S.W.	Western Australia		
	Pool	O.M.	O.M.	O.M.	Pool	West. Far.*	O.M.
1924–25 .	—	1·6	6·3	3·75	5/9·471	5/10·978	5/10·339
1925–26 .	—	4·375	3·2	2·20	5/8·497	5/6·742	5/6·090
1926–27 .	1·22	—	0·15	1·08	4/11·383	4/9·737	4/8·7
1927–28 .	—	4·49	1·29	0·65	4/10·586	4/9·420	4/10·3
1928–29 .	—	2·32	2·07	—	4/0·813	4/2·6	4/2·2
1929–30 .	—	—	—	—	3/7·163	3/1·532	—

* Westralian Farmers Ltd.

[1] Source: *Commonwealth Year Book* and Trustees of the Wheat Pool of Western Australia.

[2] From figures published by the Australian Wheat Merchants' Association and by the pools.

essence of co-operative strength, these figures bear eloquent testimony to the triumph of the movement over the very great obstacles which beset it. In three seasons out of five the Western Australian pool, and in four out of five the wheat merchanting department of Westralian Farmers, paid better prices for wheat than the open market. The same degree of success has not attended the operations of the other pools, partly because the co-operative spirit has not been so strong in the States concerned, and partly because the management has not attained the same high standard of efficiency. The Western Australian pool recognizes that it must stand or fall by the results of its work and that it must prove in fact that the way of doing business which it practises is the better way. The existence of the pools may well act as a stimulus to efficiency in the merchants, but their real influence in this direction must be very slight, if their returns are far below those of the open market.

Provided that they can secure the necessary support and that the management is sound, the pools have certain advantages. They can confidently book up in advance any cheap freight that may be offering and they secure to the farmer the full benefit of any increase in the natural weight of the wheat. In addition, a strong pool improves the grower's credit status.

The threat to vested interests represented by the pool movement has naturally led to much propaganda against it. Even war-time experience has been held up as proof of the unsoundness of collective selling. It is boldly asserted, even by economists, that Australian wheat was sold then below world parity, as if that parity could have any meaning at a time when sufficient freight could probably not have been secured at any price had Australia been a neutral country. The pool is accused of being anxious to "rope in" as many growers as possible, the implication being that the latter are to be deluded for the advantage of some persons unspecified. The merchant is welcomed as "a positive embarrassment" to the pool and its promoters are condemned out of hand as urban theorists "unversed in the outlook of the farmer." This creation of Frankenstein has been successful in luring the producer into its toils only in Western Australia and closer acquaintance with the monster there appears to have

proved upon the whole agreeable. The anti-pool argument is, however, more generally based upon the alleged superior efficiency of the merchant and the special quality of the services he renders.

In one respect, the private trader has a definite advantage to offer the farmer as compared with the pool. The former makes payment in full when the grower is ready to sell, a fact which may be of great importance in times of depression and for which some allowance must be made when comparing returns. In normal times, there is generally no rush to sell, however, and the farmer has all along been carrying stocks to some extent, just as the pool does, standing out of his money for many months. From this viewpoint, the delay in finalizing the pool accounts is not so serious a matter as might be supposed, for the merchant has never been prepared nor expected to take up the whole crop immediately upon terms which the growers would regard as satisfactory.

The merchant in Australia is, in fact, not a merchant at all, but rather a species of commission agent with a rate of remuneration determined by his skill in bargaining. On his own admission he does not willingly risk owning wheat for as long as twenty-four hours, if he can help it. His main business is to buy better than he sells. He is not as much concerned as the producer is whether the price is high or low so long as the margin is satisfactory, and is largely an agent for buyers abroad, endeavouring to get wheat from the farmers on their behalf as cheaply as he can. It is quite probable that much of the advantage won from the farmer has gone to consumers, owing to the highly competitive nature of the grain trade, but this is no solace to the farmer and, in the long run, no advantage to the consumer. In so far as the merchant sells before he buys, he is usually endeavouring to undersell his competitors and the very fact that a sale has been recorded at a given price will *pro tanto* dissuade competitors from offering farmers more. On a rising market, this practice will not, of course, obtain, but in such a market almost anybody can take a profit.

Too much weight should not be attached to the precise financial results attained by the alternative methods of marketing. Where the margin is consistently wide, it may be taken as definite

evidence of inefficiency, yet it is impossible to say what would have been the average net return to the farmer had the pools never existed. Pooling is, besides, a new device and during its early years, the longer-established methods are likely to yield a better monetary return. Whether the pools will survive will depend upon the extent to which farmers are convinced that speculative dealing is ultimately against their interests, and are prepared to make the sacrifices necessary to eliminate it. The pools have in fact been condemned for their unwillingness to shoulder risks and for their inability to engage in constructive speculation. With regard to the first, they bear as much risk as their merchant competitors, the risks borne by the latter being mainly in regard to movements in freight rates. As regards the second, the critics fail to take account of the fact that the pool is definitely opposed to those methods of trading which exclude the producer from any conscious control of marketing. There may be many who regard as beneficial the system under which a vast army of gamblers dabbles in commodities of which it knows nothing, is able to influence prices in the most irrational manner, and finally makes a present of its losses to the expert operator and to the consumer. The futures market may be an excellent institution for the merchant and miller, but the individual farmer enters it at his peril.

CHAPTER V

THE PROBLEM OF MAXIMIZING RETURNS TO PRODUCERS

1. The Vulnerability of the Producer

The risks involved in agricultural production are so considerable that it is unfortunate they have been aggravated in certain respects. What might be termed the "religion of development" has been an active economic force in new countries. For a century, a spirit, partly laudable and partly dangerous in its tendencies, has been manifest. Every extension of the area of settled land and every urge to further extension have been too often regarded as necessarily advantageous. While it is desirable that a new community should progress rapidly in wealth and amenities, the adoption of an uncritical attitude towards the method whereby that progress is to be effected and the circumstances by which it is conditioned may work much havoc. "Development" has, in fact, always been closely associated with opinion as to the prospective value of land. E. G. Wakefield's proposal for importing labourers in order to give value to land is an early and deplorable instance of the trend of thought. Again, periodical overborrowing for public works designed to promote rural enterprise has been a feature of the economic policy of Australasia, and has been the cause of many dark chapters in its history. At all times, indeed, a powerful section of the community has been interested in the maintenance of land values, and every influence that can assist has been used to further this aim. Even the "pioneering spirit" of the early days has been held up as a model for later generations, as if the pioneers had expressly settled the country in order that posterity and not themselves should benefit. Let the present age work as hard for as little (so the exhortation runs), and the world will be made safer for landowners, purveyors of credit, and lenders upon mortgage.

Not only the pioneers, but many of their successors, have been baulked of the profits they anticipated from land. That it would rise in value has long been an article of faith in new countries.

Land has been brought into cultivation very often at a cost which would never have been incurred except for the prospect of a considerable appreciation in its value. From generation to generation, farms have changed hands, not at a valuation determined by the prices of produce over a series of years, but upon terms that included a sum to cover prospective increments. Rising prices enabled farmers to rectify their financial position and the post-war boom afforded opportunities for profit-taking on an unprecedented scale. All along, rural development has been subsidized by unearned increment without which it would have proceeded much more slowly, and the value set upon land has tended to be prospective, rather than actual. There have been harmful reactions, too, upon farming practice arising from this semi-speculative attitude to land, for the average producer was careless about costing his operations and was inclined to regard unearned capital appreciation, rather than maximum current net profit, as the thing that mattered. Under the circumstances, the farmer was as unconcerned as his creditors about his solvency.[1]

The actual turnover of land has been nothing like so great as the foregoing discussion might suggest. Owners are not always able to make their price, nor are they all prepared to sell. Yet the strength of the urge to deal in land is evidenced by the great quantity that is continually under offer through public advertisement. The farmer in Australia and New Zealand is not alone in setting a high value upon his land. The French peasant, for example, probably values his a good deal higher, but he is thereby expressing his affection for the soil and not the profit he expects to secure by leaving it.

The transfer of land at inflated values has been greatly assisted by the mortgage system. A loan for improvements secured by means of a mortgage is a very different thing from a mortgage debt created on paper as a means of facilitating sale. The latter is a device for rendering demand effective and is as potent a means of inflating values as an increase in the amount of currency devoted to land purchase. Freehold tenure, with little or no

[1] "In the old days, we (i.e. the stock and station firms) never thought about securities, because the land was rising in value." (Minutes of Evidence on N.Z. Rural Intermediate Credit Bill, 1927, p. 37.)

mortgage liability, enables the farmer to survive depression, but when a fixed interest burden has to be borne on a heavily mortgaged property, he becomes peculiarly vulnerable.

In view of all this, it is not surprising that every effort is made by interested parties to bolster up values. If the average farmer's estimate of his costs of production be examined, it will usually be found that a high capital value is assigned to the land and a high rate of interest charged against that value.[1] The farmer fixes upon labour costs, rather than upon mortgage burdens as the cause of his difficulties,[2] a perfectly natural course from his point of view. For, as Wakefield saw, the lower the current rate of wages, the higher the value of land is likely to be. The refusal to face facts is seen in proposals to relieve unemployment by settling men upon the land, rather than by turning them into some branch of secondary production. Aversion to the latter proceeding is to be ascribed at least in part to the fear that it would imply a want of confidence in the future of land values. Whatever the defects in marketing mechanism, it is certain that the force behind schemes of internal and external control has been largely generated by the desire to maintain the price of land.[3] Let values rise, let financial circumstances among farmers become easy once more, and we shall probably hear less of the faults of middlemen or of enormous post-farm profits.

[1] See, e.g. the evidence before the N.Z. Butter Prices Inquiry Committee (N.Z. Parliamentary Papers, I–13, 1920). *Cf.* the remarks of the Hon. M. F. Troy (Western Australia) at the conference of State Ministers of Agriculture, Brisbane, 7/6/26: "Go down the north coast of New South Wales and they will tell you that the land is worth £70 to £100 per acre and in the same breath they will say they cannot live on the butter industry." The Victorian Royal Commission on the Dairy Industry stated (Report, p. 7): "It is obvious that land values are at present too high for dairy farmers to carry on successfully." (Victoria Parliamentary Papers, 1928, Vol. II, p. 235.) It was even argued by the N.Z. manufacturing interests before a recent Tariff Commission that the high cost of land for factory sites as compared with Great Britain was a reason for maintaining the tariff.

[2] See Report of N.Z. Industrial Conference, 1928, *passim.* (N.Z. Parliamentary Papers, H–35, 1928).

[3] *Cf.* "In fact it may be asserted that one of the keenest motives back of the present boom in agricultural co-operation in the United States is the desire to maintain the existing prices of farm land. There has never been any definite suggestion that it should benefit the hired man." (E. G. Nourse—"The Economic Philosophy of Co-operation": *Amer. Econ. Review*, 1922, p. 581.)

It is not claimed, however, that inflated land values have constituted the only element in the farmer's difficulties, nor that measures designed to diminish the severity of the latest onset of deflation have no justification. Yet it must be remembered that once the slump of 1920 had passed, prices of most products settled down for a decade upon a relatively favourable level and that, though there was no prospect of an upturn, farming profits were adequate for skilled farmers who had not bought land at the peak of values.

2. Stabilization

A survey of agricultural history during the nineteenth century leaves no doubt whatever that changes in the general price level owing to monetary causes have constituted the greatest single factor in creating agricultural depression. It is therefore surprising that producers in Australasia, as indeed elsewhere, have not sought to ascribe their difficulties primarily to monetary factors. They have blamed rather foreign competition, "black labour," high wages, rates of interest, unscrupulous middlemen, and even unfeeling consumers[1] for the shrinkage of their margins of profit, but never until lately the defects of monetary policy. Whatever their direct sufferings and the indirect effect of their losses upon other economic groups, it remains true that farmers, like most entrepreneurs, take up a somewhat illogical attitude. Rising prices seldom go high enough to content them,[2] any attempt to limit a rise by government intervention is resented as unjust, and when the inevitable reaction sets in owing to increased output and the revolt of consumers, there are complaints that the producer is hardly done by. His ideal is security against a fall in price, but no other form of restriction; and hence the crucial question that must first be agreed is whether stability is really desired. A long period of depression or a sharp decline in prices over a short time may create a strong sentiment in favour

[1] The New South Wales *Primary Producers' News* has spoken more than once of British consumers being "unwilling to pay a fair price for butter."

[2] See, e.g. E. M. H. Lloyd—*Stabilization*, p. 93, with reference to Canadian opposition to international control of foodstuffs and raw materials proposed in 1920 at the First Assembly of the League of Nations, when prices were at their peak.

of stabilization, but it is questionable whether that feeling would survive the first lifting of the clouds. In any case, those who have considerable resources at their disposal, whether actual producers or merely speculating investors, do not usually favour equilibrium, because they look to instability to drive out certain farmers, to furnish opportunities for extending their holdings at low cost, and to bring about fluctuations from which they are in a position to derive advantage. Even the small farmers are not generally in love with the idea of stabilization. It is true that in Australia the term acquired for a time a currency and popularity that have been characteristic of all "blessed words," but it has never been employed in its plain, literal meaning. What the Australian dairyman, for example, means by "stabilization" is the raising of prices to the highest possible level at all times. Enough has been said in the last preceding section to indicate that the farmer would probably be prepared to accept genuine stabilization only as a *pis aller*. While improvements in agricultural technique might increase returns under a regime of steady prices, that increase would not push up land values fast enough to make stability acceptable. The farmer is compelled in the nature of things to be something of a gambler and he would be loath to abandon the prospect of unearned increment in favour of assured present income.

Given the desire for the elimination of price fluctuations in both directions, the problem of the technique of stabilization remains. It is clear that absolute stability is not capable of attainment and also that it implies an undesirable degree of rigidity. Agriculture having come in recent years more and more under those influences which induced so great an increase in manufacturing output, it is surely to be expected that prices of foodstuffs and raw materials will tend to fall. Yet any authoritarian plan which provided for such a contingency would be certain to be summarily rejected by producers.[1] For them a *sine qua non* will be the maintenance of nominal prices at or above a given level, a condition which would imply rigidity, all the higher cost producers remaining in

[1] Schemes for state guaranteed prices or actual guarantees never contain any proviso that the state should share in the distribution of any returns exceeding the amount for which it has assumed liability.

the industry at the existing level of efficiency and all the low cost ones being thereby dissuaded from increasing theirs, unless no restriction of output is contemplated. Yet any scheme of price maintenance would be bound to have regard to output, since stability implies that the great majority of the producers are working at a profit, with an inherent tendency to increase that profit by extending the scope of their operations. Finally, no plan for stabilization could be confined to agriculture, which has no peculiar claims to security.

Two other methods of diminishing the amplitude of price fluctuations are available. The first, which has already been widely practised, is the valorization device, involving control of price and output by the producers directly concerned. In Australasia, there has been no attempt to limit production, and any such limitation of the output of the more important exports would simply mean making a present to competitors in overseas markets as the U.S.A. has done to some extent by its cotton restriction scheme. The tendency has, in fact, been all in the opposite direction, with a call for greater and greater output to compensate for every fall in prices, as if high farming were in itself any remedy for depression. Under these circumstances, the maintenance of prices even within Australia has proved impossible.

The monetary remedies for instability really lie outside the scope of agricultural policy. Yet the desirability of active measures to check deflation in the world at large is confirmed by the movements of prices over the last quarter of a century. Prices in primary markets for wheat, wool, dairy produce, and some kinds of meat are lower than this generation has ever known them,[1] and in recent years have fallen at a rate which was bound to produce severe economic stresses.

Judging from past experience, "price insurance" by means of trading in futures on the organized exchanges does not hold out any hope for the producer. Nor is there likely to be much gain from attempts at forecasting prices and production, nor from research into such matters as the elasticity of supply of different

[1] A similar experience followed the Napoleonic Wars. See L. P. Adams—*Agricultural Depression and Farm Relief in England*, 1813–52.

commodities. These require that very degree of co-operation among farmers which schemes for direct stabilization have failed to secure. In any case, in a progressive community, the problem is really one of stabilizing returns as a whole rather than of maintaining a fixed price per unit of output and many will doubt whether even that can be achieved under a predominantly individualistic and capitalistic regime. Meantime, the provision of more and more adequate information as to supplies and prices, actual and prospective, which is largely the result of the efforts of the marketing boards, may be regarded as the most hopeful method of eliminating the more irrational movements in markets and of bringing the farmer to realize that, if he is to achieve any measure of security, he must be prepared to adjust his individual policy in the interests of the group.[1]

3. The Spread Between Producers' and Consumers' Prices

The central problem of marketing is to maximize the margin between costs and returns. Under a regime of deflation, it assumes two aspects. There is the lag which is set up in the rate of fall of prices at various stages of the marketing process and also the long-run problem of narrowing such profit margins as must always exist. The retailer is frequently aided by the consumer in his attempt to hold up prices, since the latter is prone to believe that a lower price means poorer quality and is unaware of the influences at work in primary and wholesale markets. Again, the extent to which the limiting of margins is within the control of producers varies as between commodities and is very slight in the case of those that require much preparation and elaboration

[1] Proposals for the stabilization of wool prices were again brought forward at the Empire Wool Conference at Melbourne, June, 1931. All were rejected except that proposed by Sir John Higgins, which involved a system of price insurance and which was reserved for further consideration, but has since been rejected too. The Commonwealth Wool Inquiry Committee recently recommended a return to the early post-war practice of fixing minimum export values, but the recommendation was not adopted. The Chicago Mercantile Exchange deals in butter, eggs, and potato futures, but the system is designed, like wheat and wool futures, to afford protection to traders rather than to producers. See Rules of the Chicago Mercantile Exchange, 17th February, 1931. Twenty-five commodities in the U.S.A. are said to be subject to future trading. See G. W. Hoffman—*Future Trading upon Organized Commodity Markets in the United States.*

before reaching the final consumer. Hence the cost of marketing, in the widest sense, may itself form as large a proportion of the final price as the cost of production bears to the farmer's gross return. Generally, it may be said that the nearer we get to the final consumer, the more expensive are the marketing services employed. The costs of retailing are usually the highest of all, and though the percentage of profit per unit at this stage varies considerably from trade to trade, the differences in returns upon capital are probably not very great when viewed in the light of the rate at which the turnover of goods of various kinds is effected.[1]

Such considerations as these require to be borne in mind by the producer and by the investigator. A careful study of the price-structure of a commodity ought to reveal the points at which margins are apparently excessive, and large "spreads" should either be explained or reduced. Yet the idea that any direct or forcible reduction can be effected is foolish, since this can be brought about as a rule only by the gradual re-organization and re-alignment of the forces at work in the market. It may well be, for example, that custom, having almost the power of combination, will make costs high at certain points, yet tradition is not likely to be destroyed by direct attack.

The heavy costs of retail distribution are to be largely ascribed to the habits and tastes of consumers and to competition between retailers in the extension of services included in the price paid. The cost of these services is especially high in the case of retail food distribution and the consumer's assumption that he is obtaining them for nothing is unfortunate. At least a part of the public expenditure which is incurred in the United Kingdom in an effort to direct consumption towards goods from particular sources might well be diverted to the education of the consumer. Upon his willingness to accept standardization, to pay cash, and

[1] See Committee on Industry and Trade—"Further Factors in Industrial and Commercial Efficiency," 1928, pp. 110, 114. The retailer's gross margin on sales in the woollen trade is given as 33⅓ per cent; in groceries and provisions as from 13·5 per cent to 16·1 per cent. See also Neal—*Retailing and the Public*; Braithwaite and Dobbs—*Distribution of Consumable Goods*. For ordinary retail trade the former gives 4 per cent as the usual margin on turnover for a progressive business; the latter 3 per cent to 6 per cent according to the trade concerned.

to forgo the advantages implied in the phrase "families waited upon" depends very largely the extent to which retail margins can be cut. One hopeful sign is the recent successful development in British countries of the fixed prices, multiple-shop concern, offering a similar variety of goods at each branch and relying upon display rather than salesmanship.

These broad considerations appear to indicate that there are possibilities of reducing costs in directions as yet little exploited. As to the margins which actually exist between producers' and consumers' prices, no detailed or comprehensive evidence is offered here, since investigation can only be of practical value when made directly for use in the trade concerned by those conversant with all its ramifications and its day to day operations. Some attempt will, however, be made to suggest how far producers' complaints of excessive margins are justified.

Graziers regularly complain that cheap wool does not mean cheap clothing. Manufacturers, on the other hand, when wool is dear, ascribe the high cost of the finished article to that fact; and, when it is cheap, assert that the raw material forms a very small part of the cost, so that a substantial reduction in clothing prices cannot be made. Some years ago, the Graziers' Association of New South Wales took up this question and arrived at the conclusion that 7·1 lb. of greasy combing fleece, yielding 58 per cent clean scoured, were required to make a suit of clothes for the average man, the wool being worth 10s. 9½d.[1] The Committee on Industry and Trade quoted the following figures of the distribution of costs in the wool textile industry[2]—

Raw Materials and Fixed Charges	60%
Wages	25% to 30%
Other Variable Charges	10% to 15%

Whether we take the crude cost of the raw material or the percentage quoted above, it is apparent that the wool itself does form an important item in the cost of clothing. What the graziers are probably thinking of is not the margins that normally prevail at each stage, but the lag in the fall in retail prices as compared

[1] See Dalgety's *Review*, 1929–30.

[2] Further Factors in Ind. and Com. Efficiency, p. 83. Quoted from article in *The Times* of 13/12/27.

with those in primary markets. For example, the average export value per lb. of Australian greasy wool was in 1914, 9·45d. and in 1929–30, 11·3d., a rise of less than 20 per cent, whereas the increase in the retail price of clothing in the United Kingdom over July, 1914, as shown by the *Ministry of Labour Gazette* was in April, 1931, 100 per cent.[1] It appears, however, that there are no steps which the wool-grower can take either to reduce the lag in the fall of retail prices or to attack margins of profit at the manufacturing and distributing stages.

The wheat-grower is in a somewhat similar situation. It is notorious that the fall in grain prices in the first years of depression was not accompanied by much movement in the prices of flour and bread. In fact, the costs and profits of milling, baking, and physical distribution may rise while grain prices are falling.[2] Between January, 1925, and March, 1931, the "spread" between c.i.f. wheat prices and the price of bread actually increased about 50 per cent. A lag in the rate of fall of the latter price as compared with the former might be expected, but not a movement in the opposite direction. The milling and baking trades are, however, powerfully organized and have eliminated competition to a very large extent.

Butchers have commonly pleaded before commissions of inquiry since the war that consumers' tastes have changed, that poorer cuts are now difficult of sale, and that the lower prices they fetch are responsible for the level of meat prices being higher than it otherwise would be. It is not part of the present inquiry to discuss the technique of carcass cutting and the kind of evidence necessary to controvert the butchers' case is not easily come by. However, the head of a large multiple-shop concern, quoting from the price register drawn up for the guidance of employees, shows that a 30 lb. New Zealand lamb cut up in one fashion yielded 8 lb. of inferior meat, and in another 6 lb.[3]

[1] *M.L. Gazette*, April, 1931, p. 132.

[2] See Documents prepared for the Conference of Wheat-exporting Countries, London, 18th to 23rd May, 1931.

[3] *Imported Food Journal and Modern Meat Marketing*, November, 1930, p. 29. The N.Z. Meat Board has supplied figures showing that, during April, 1934, the retail price in London of N.Z. lamb was from 10d. to 11d. per lb. for the better cuts, necks being 6d., breasts 3d., and fore-quarters 7½d. Smithfield prices were from 6½d. to 7d. per lb.

A 32 lb. lamb was also reckoned to give only 6 lb. of coarse cuts. These were sold at about one-third to one-half the price of joints and at about 60 per cent to 70 per cent of the average wholesale cost of the carcass per lb. The figures suggest that the explanation of high meat prices is not to be found in the difficulty of disposing of the coarse cuts. This impression might not be confirmed by a similar analysis of the retail prices of beef and mutton, yet lamb is a far more expensive article and the cost of cutting and selling is probably at least as high as for other kinds of meat.

More adequate information is available in regard to the margins prevailing in the dairy produce trade, since the price structure is in this case much more easily analysed, the product coming to market ready for consumption. The cost of the manufacture and marketing of butter is about 2d. per lb.[1] with a further 2d. to 3d. per lb. added for wholesaling and retailing. The retail profit varies somewhat according to the wholesale price, and as between the multiple shop and the provision department of the large store. The wholesale price may be at such a level as will yield a fraction more than 2d. or 2½d. per lb. to the retailer, since butter is bought at shillings per cwt. and sold at pence per lb. Thus, if the wholesale price were 112s., the retail price would tend to be 1s. 3d., though the former price could rise about 5s. without reducing the margin of profit below 2½d. per lb. On the other hand, the wholesale price would require to fall to about 107s. in order to bring the retail price down to 1s. 2d. per lb. There are thus additional margins available which the astute trader can retain. Some, of course, cut their prices and are content with a margin of 2d. per lb., or even slightly less on occasion. Some allowance must be made also for the fact that all the butter on sale in the shops was not bought at the average official current wholesale quotation. The comparisons between wholesale and retail price movements made by the New Zealand Dairy Board reveal a "spread" at times which is not necessitated by the normal profit requirements of the retail trade.[2] The retail price regularly fails to follow the wholesale price downward,

[1] See, e.g., N.Z. Statistics of Factory Production; also the accounts of individual dairy companies in Australia and New Zealand.

[2] See the Annual Reports of the Board.

though it may not rise so rapidly when the latter recovers. In 1928–29 the multiple-shop price was held for seven months at 1s. 10d. per lb., while the wholesale market fluctuated between 176s. and 186s. per cwt., the average being about 181s. The wholesale price was, therefore, about 1s. per cwt. less than was required to provide the usual retail margin. The tendency to reckon profits in pence per lb. rather than as a percentage upon turnover seems to have no justification. During the recent severe decline in the prices of foodstuffs retailers in general appear to have won considerable gains, for turnover has been greatly increased and consumers have not always reaped the benefit of rapid adjustment of retail prices.[1]

4. Marketing Finance

In the newer countries especially, little attention was given until after the war to the question of the provision of marketing credit. In Australia and New Zealand emphasis was laid rather upon the supply of credit for productive purposes such as capital outlay for the improvement of farms and for the erection of dairy factories, sugar mills, and the like. Governments necessarily played an important part in providing such funds, for the new countries lacked capital and its importation was most economically effected through the agency of the state. Short-term credit for the marketing of produce or to enable farmers to carry out their seasonal operations was more readily come by through the ordinary channels of trade.

The advent of depression changed all this. As prices fell, the farmer's security diminished and the lender's nervousness increased. The producer's obligations on capital account became more burdensome, the cost of the things needful for seasonal activities remained relatively high, the price of credit rose, and the rate of advances against produce tended to decline. A very natural, yet inaccurate, impression gained ground that credit facilities were inadequate and that some addition to those already existing was required. That the credit status of the individual

[1] See the opinions of the Imperial Economic Committee on retail butter prices in its report on dairy produce, pp. 72–3.

farmer could be improved by his organization into associations did, indeed, come to be more widely realized, but the general belief was that a more direct solution of the problem could be found. New forms of short-term credit were devised in the United States, and New Zealand and Australia followed the lead thus given. The Commonwealth Bank set up a Rural Credits Department in 1925, which was authorized to make advances to producers' organizations for marketing purposes. Shortly afterwards, a Rural Intermediate Credit Board was appointed in New Zealand, although accommodation for short periods was already obtainable through the State Advances Department. These new developments resulted in part from political pressure exerted in the confident belief that they would assist in driving down the cost of credit. Yet the fact that the new facilities were not widely used in these Dominions goes to show that a cheaper alternative source had not been discovered.[1] "Intermediate credit," in its various forms, had no magic to conjure with high interest rates and low advances. Ordinary lenders were able to grant the usual accommodation and the total volume of credit was adequate to ensure the orderly marketing of the produce. Indeed, the New Zealand Royal Commission on Rural Credits (1926) came to the conclusion that the existing short-term credit facilities were adequate. Influenced no doubt by its American experience, the Commission thought that further provision for advances against stored produce was necessary in order to regulate the flow of goods to market. Such provision might well have proved disastrous, however, had it rendered possible any large-scale holding movement.

A great variety of sources of marketing credit exists in Australia and New Zealand. The Commonwealth Bank and the commercial banks in both Dominions play the major part, since they not only make advances at first hand, but also extend over-

[1] The experience in the U.S.A. was similar. See Minutes of Evidence on N.Z. Rural Intermediate Credit Bill, p. 9: "In the U.S. only about 11 per cent of the farmers borrow from the Rural Credits Board. The bulk of them borrow as they have always borrowed." The Chairman of the Commonwealth Bank Board stated in August, 1932, that a total of £45,211,124 had been advanced to wheat and other pools since the creation of the Rural Credits Department. The largest amount in any one year was £8,634,863.

drafts to concerns which are in more direct contact, as a rule, with individual producers, and which re-lend these overdrafts, along with some of their own capital. Such concerns include the stock and station firms, country storekeepers, merchants, wool-brokers, freezing and dairy companies. To some extent the supply of credit for seasonal purposes is bound up with marketing credit or, at least, gives lenders some control over the disposal of produce. This fact, together with their knowledge of the credit-worthiness of the individual farmer, explains why the non-banking concerns are able to lend at comparatively low rates, adding perhaps only ½ per cent to 1 per cent to the rate at which they themselves may have borrowed. The making of an advance on chattels security over stock, say, frequently carries with it the right to determine the channel through which the animals shall be marketed, the lender receiving a commission from the freezing-works selected. Again, stock and station firms and storekeepers may advance to farmers at cut rates in the expectation that the latter will purchase supplies of them. In the same way, the turnover of wool-brokers and of wheat merchants depends largely on the amount of their advances.[1]

Once export produce changes hands, is consigned to a selling-agent, or is shipped, outside credit resources begin to be drawn upon, sometimes from funds provided by letters of credit and sometimes by the discounting of bills. It is not possible to trace out all the methods whereby the financing of produce is carried on, but a broad outline will be given for each of the more important commodities.

Wool. The grower who disposes of his clip in Australia or New Zealand usually secures an advance against it on delivery to the broker, who is furnished with bank credit for the purpose. The terms of sale provide for payment by wool-buyers within fourteen days when the balance of the price is available to growers. This interval is necessary because buyers, as a rule, cannot operate

[1] The Australian pastoral companies had at 30th June, 1930, loans, investments, and advances of approximately £29 million outstanding. (D. B. Copland—"The Finance of Industry." *Annals of Amer. Acad. of Pol. and Soc. Sci.*, Nov., 1931, p. 97.) A 1927 estimate of the advances made by stock and station firms in New Zealand was £20 million. (Minutes of Evidence on N.Z. Rural Intermediate Credit Bill, p. 35.)

upon their credits until the wool is shipped. When the grower consigns wool direct to London, it is advanced against (and often shipped, etc.) by a commercial bank or by a wool-broking firm having a merchanting house in London. On the arrival of the consignment, the bank or other concern takes up the documents and arranges for sale through a broker, collecting a commission of 1 per cent or more for its services. Credit for the wool-buyers who operate at the Dominion auctions is arranged by the merchant, top-maker, or manufacturer in the importing country. In England, these apply to their bankers for credits to be opened by mail or cable in buying centres in Australasia. As sales proceed, the buyer draws bills on the London office of the bank for a percentage of the value of his purchases. The bills, with the shipping and other documents attached, are discounted by the bank in the selling centre at which the credit from England is established and the proceeds applied in payment of the wool. The importer must himself supply some of the purchase money, though the proportion will vary from firm to firm. The wool is hypothecated to the London bank until the importer takes up the bills of exchange. Wool is usually regarded as good security, but the policy of the banks themselves has, of course, much influence upon prices. Movements in the exchange rates are especially important in regard to wool-buying, any instability or threatened wide fluctuation having immediate effects upon business at the auctions and even holding up sales.

Wheat. When the farmer sells his crop outright to a merchant, he can secure full payment at once. Alternatively, he can obtain an advance against wheat that he stores or contributes to a pool. The merchant is dependent upon local bank credit. The Western Australian pool's advances, etc., are financed by the banking department of the English Co-operative Wholesale Society, an arrangement which has the advantage of lessening the strain upon local credit resources.[1] The other Australian wheat pools are financed through the Rural Credits Department of the Commonwealth Bank, which determines the amount to be issued to cover

[1] See T. G. Davies—*A Brief History of the C.W.S. Bank*, 1930, p. 19. The annual turnover of the bank is £275 million. It finances other co-operative enterprises in Australia and New Zealand to some extent.

the first advance and expenses. Once wheat is shipped, bills are drawn on the London houses or brokers of the merchants operating in Australia and discounted with the local banks.

Dairy Produce. The farmer receives payment in the form of monthly pay-outs from factories, the amount being based upon the actual or anticipated realizations. At the end of the season, a bonus is usually paid in addition. After produce has been manufactured, a dairy company may secure an advance from a bank pending shipment in order to pay its suppliers. Such overdrafts are not required when sale has been effected f.o.b. or arrangements made to consign the produce to a commission agent in London. In the former case the factory may be paid as soon as the produce is received into the government grading-store preparatory to shipment. The buyer's agent in Australia or New Zealand is provided with funds for this purpose by means of an Importer's Letter of Credit arranged in London on a Dominion bank. The agent draws a draft in turn upon his English principal when the produce is on board. London commission agents advance in much the same way, through their representatives in the exporting countries, against butter and cheese consigned to them for sale. The amount is usually 80 per cent of the estimated selling value.

The dependence of dairy companies upon commission agents for advances has been held to be undesirable.[1] There is nothing, however, in the way of a "tie," as a factory is not in the position of a borrower whose security has shrunk in value and who must continue perforce to resort to the same source of credit. Besides, alternative credit facilities are available. In introducing the Commonwealth Bank (Rural Credits) Bill in 1925, the Treasurer said that it aimed at giving the organized producer freedom to control his produce himself during the whole of its distribution. Yet the prior-existing facilities appear to be preferred and even the New Zealand Dairy Board left the financing of sales to the commission agents during the period when it controlled the marketing of produce.

Meat. As a rule, the grazier sells his stock outright in Australia

[1] See Report of Imperial Economic Committee on Dairy Produce, p. 62.

and New Zealand and takes payment at once from the works or export buyer. If the farmer consigns his meat, either through a works' pool or independently, he can get an advance of a proportion of the value while it is awaiting shipment. Advances on similar terms are made by banks to works and other operators against store warrants when the meat is ready for export and further amounts become available when it is shipped. For the latter purpose, bills are drawn on the works' London house or agent. Where sales have been effected f.o.b. or c.i.f., the drafts may be drawn directly on the buyer in London.

5. Authoritarian Intervention

The Pre-depression Period. The fact that entrepreneurs in Australia and New Zealand, and especially agriculturists, have for long looked to the State to assist their undertakings has already been noted. The relatively favourable terms of trade made it possible not only to extend farm operations with advantage but also to develop secondary industries under the shelter of a tariff without adding unduly to costs. With the advent of lower prices after 1920, however, the enthusiasm for diversifying production by protecting secondary industries was somewhat diminished by the realization of the burdens that might thereby be placed upon the export trades. More recently, therefore, certain rural industries, especially in Australia, have learned the trick of using the tariff to subsidize their surplus output, since it was clear that any attack upon costs by a reduction of the protection to manufactures was impracticable. Accordingly, a stage has almost been reached, both in industry and in agriculture, at which "everybody has won" and "all must have prizes." Yet even before Australian primary producers began to exploit the tariff on any considerable scale, they were themselves receiving much direct and indirect aid from the State. Hence the margin between the cost of protecting manufactures and the total assistance of all kinds to rural industry was shrinking. A rough estimate set the value of the tariff to secondary industries at £26 millions. Primary production (including mining) received about £22 millions, made up of £12 millions from subsidized railways, development expenditure, etc., £7 millions from protection to butter and sugar, and

£3 millions from other protected farm products.[1] The total might well have been put much higher, if every kind of service rendered to agriculture at the public expense had been included.

The subsidies involved in maintaining the output of sugar, butter, and dried fruits are particularly onerous. For not only must the local consumer subsidize that part of the production which is disposed of at home; he is also required to cover the loss involved in dumping surpluses abroad.[2] This is perfectly clear from the fact that the average price over the whole output may be taken as the payable price and yet the local consumer must pay more than that in order that the surplus may be profitably carried off. Thus a deliberate attempt is made to maintain uneconomical excess production at the expense of the community at large.

This last consideration reveals how hollow most of the devices for direct and indirect subsidies are. Tariffs, bounties, and subsidies all depended upon the prosperity of the staple trades, and after the prices of wheat and wool fell, the foundations of the tariff wall were undermined. Besides, farmers have probably not reaped the full benefit of protection to primary products, since middlemen are apt to secure more than normal profits when the trades are protected.[3] Butter distributors in Australia were not averse to the increase in the tariff against the New Zealand product, since the possibility of augmenting supplies from that quarter made the risks involved in the trade greater. Similarly, the refining and distribution of sugar has fallen into the hands of an almost complete monopoly under conditions that ensure at least normal profits without risk.

Both in Australia and in New Zealand primary producers were

[1] For the estimates cited, see Report of Commonwealth Royal Commission on the Constitution, 1929, Minutes of Evidence, Part 3, 1.1700; *The Australian Tariff, an Economic Inquiry; Studies in Australian Affairs*, 1928, p. 84; J. B. Brigden—*Escape to Prosperity*, 1930, pp. 44–5.

[2] For an excellent analysis of this matter, see *Economic Record, Marketing Supplement*, 1928, p. 148: "Some Costs of Marketing Control," by L. F. Giblin. Also an article by the same writer on "The Tariff—Its Costs and Effects," in *Annals of Amer. Acad. of Pol. and Soc. Sci.*, Nov., 1931, p.119.

[3] *Cf.* E. G. Nourse—*American Agriculture and the European Market*, p. 83: "Any increase in prices (resulting from a tariff) seems to come to the producer in a diluted form and to reach the consumer as a magnified burden on his cost of living."

receiving before 1930 more assistance from the State than they would generally have been willing to admit. In the latter country, the leading export industries are not in a position to make a tariff effective, but protection covers a number of minor products consumed at home. The New Zealand wheat duties are even held to be of benefit to the export trades, since it is argued that without them more fat lambs would be exported and this would depress prices.

Crisis Policies. The onset of the present depression has led to authoritarian intervention upon an altogether unprecedented scale. Whether all the measures taken have been either wise or necessary will probably remain an open question, but it seems clear enough that their effects will not be merely temporary and that they are of such a nature as to involve fundamental changes in the character and control of economic enterprise.

Additional subsidies of various kinds were felt to be essential in order to save the agricultural situation from deterioration and chaos. Proposals for relief to wool-growers in Australia by way of a bounty or loan were rejected by the Commonwealth Wool Inquiry Committee, but concessions in railway freights were made. A variety of efforts to assist wheat-growers, including taxes on flour and bounties, led to a recommendation by the Royal Commission on the Wheat Industry that a home consumption price be established for wheat as for butter and sugar. The amount of assistance stated to be necessary was set at £4 million per annum. Financial assistance has been given in many directions in order to enable producers to carry out their seasonal operations, since their credit with private concerns was in many cases exhausted. It is not possible, nor would it at the moment be useful, to estimate the total value of the relief granted in this way, but it has constituted a very considerable drain upon the national finances.

Adjustment of Costs and Debts by Legislation. Apart from these emergency measures, attempts have been made by legislation to break down economic rigidities and bring about some adjustment of farm costs. Compulsory reductions in the rate of interest upon existing mortgages and in wage rates were effected. In addition, certain changes were made in the incidence of taxation

and rural councils received in many cases a subsidy to enable them to reduce rates or cover the losses due to their inability to collect them in full. All this left the problem of the capital indebtedness of farmers untouched. Many of them had assumed liabilities upon mortgage which it was now impossible for them to discharge. In the ordinary course of events, they might have been forced into bankruptcy and large amounts of land might have been thrown upon the market. Governments, therefore, sought some alternative to bankruptcy and found it in Mortgagors Relief Acts. These measures give authority to *ad hoc* bodies to wipe out arrears of interest and reduce current payments and to take away from the mortgagee the power to exercise his right of sale. In New Zealand, by the Rural Mortgagors Final Adjustment Act, 1934–35, mortgagors may retain possession for a period of five years, if they choose to come under the Act. Whether it was really necessary to employ these measures is a question to which no clear answer can be given. The New Zealand Dairy Industry Commission observed[1] that "the legislation was undoubtedly necessary to prevent panic deflation of land-values and the dispossessing of many farmers whose position was basically sound, but who were for the time being unable to meet their obligations in full." There are, however, reasons for thinking that the legislation was not so necessary as is supposed. Some form of moratorium combined with financial assistance for seasonal operations would have given a breathing space in which to take stock of the whole situation and concert less rough and ready measures for meeting it.[2] The likelihood of "panic" deflation of land values was not so great as has been imagined and in any case the effect upon the investment structure was probably the most important aspect of the problem. It is true that large amounts had been lent upon mortgage by life in-

[1] Report, p. 55 (N.Z. Parliamentary Papers, 1934, H-30).

[2] The situation could also have been eased by the abrogation of the personal covenant in mortgage agreements, whereby the other estate of the mortgagor is liable to be levied upon, if the mortgaged land fails to realize the amount of the mortgage. The existence of the personal covenant has no doubt done much to prevent the liquidation of capital debt, since mortgagors might have lost their all had they forced on lower valuations of land by abandoning their properties. The personal covenants were abrogated in New South Wales.

surance concerns, savings banks, and the like, but the margin was in general sufficient to maintain the value of the investments in the long run. In the all too numerous cases in which mortgages had been created in order to effect sales of land at inflated values, the depression should have furnished the occasion for a sharp, undoubtedly painful, but altogether necessary, cleansing. The fact that the farmer's equity would by this process have been reduced or extinguished, and that an adequate fall in land values would have been intolerable to the rural community and to many private investors seems to furnish the real reason for the confiscatory legislation that was enacted. In other words, the measures were taken upon grounds of political expediency, rather than economic wisdom. The possibility of wholesale dispossession, interruption of production, and general chaos was no doubt exaggerated with a view to securing many individuals from the adverse effects of the operation of agreements to which they had voluntarily set their hands. It is not certain that mortgagees would have intervened, for it is as a rule to their own advantage to see that the mortgagor, if he is reasonably efficient, remains upon the farm and keeps it in order. The fact that in many cases voluntary adjustments were effected without recourse to the statutory protection shows that the panic fears of some economists, politicians, and farmers were not altogether justified. It is, however, sometimes asserted that these voluntary adjustments would not have been so readily effected had the mortgagors not been in a position to take their cases before the statutory bodies for adjudication. The evidence upon which to base any considered judgment is not, of course, available, but independent investigation in individual instances goes to show that, as usual, the greatest benefit has not always accrued to the most deserving and that many mortgagees, dependent wholly or partly upon interest payments, have been harshly treated. The general result has been to render investment upon the security of land unattractive and to import into the rural mortgage structure a degree of rigidity which bodes ill for the future.[1]

[1] The N.Z. Rural Mortgagors Final Adjustment Act, 1934-35 is "to enable the excessive liabilities of farmer mortgagors to be adjusted to a level which is within their capacity to meet them and thereby to retain

No doubt the realization of this fact lies behind the recent endeavour to set a term to the abrogation of mortgage contracts and to take the whole mortgage question, if possible, out of politics, where it must continue to embarrass governments. In New Zealand, a Mortgage Finance Corporation, a semi-public organization, has been established to that end. It has taken over all mortgages to the Crown and is indemnified against loss in respect of these.[1] The chief object of the Corporation is to impart some degree of liquidity to the mass of mortgage indebtedness. It is empowered to raise funds by the sale of bonds and to use these funds, as well as its share capital, to re-finance mortgagors. The Corporation will advance only up to two-thirds of the value of the security as determined by the management, but it may re-finance existing mortgages up to four-fifths of this value, subject to a guarantee by the state against any loss on the excess over two-thirds. It seems clear that the Corporation can succeed in its object only to the extent that mortgagees are willing to cut their losses and to accept through the mortgagor, who will then be liable to it, such sum as the Corporation may be willing to advance. Should the Corporation fail to achieve its purpose, the mortgage question will return to the political arena, if, indeed, it has been effectually removed from it.

Exchange Devaluation. The exchange policy pursued in conjunction with the measures just outlined has occasioned popular, as well as expert, controversy. It may be said that enthusiasm

efficient farmers in the use and occupation of their farms. In making such adjustments due regard will be had to the relative hardship on mortgagors and their creditors." The Act is composed mainly of question-begging phrases (e.g. what is an "efficient" farmer?) which it is left to the Adjustment Commissions and the Court of Review to interpret. At the end of five years, the productive value of the land is to be ascertained on the basis of the net average annual income derived during the period. (Hence a farmer should see that he is not too "efficient.") If the value is less than the mortgage liability, that liability is reduced to the amount of the valuation. The rural mortgagor is thus given a degree of security vouchsafed to no other member of the community. It may be added that it was at first proposed to give mortgagors at the end of the term a 20 per cent equity in their properties, whatever the losses to their creditors. The proposal, which was wisely dropped, indicates the temper behind all the mortgage legislation.

[1] This step abolished the State Advances Department which was for long able to lend at low rates to settlers and workers because, as a State institution, it was able to borrow cheaply.

for devaluation has diminished among its original advocates, though it is still supported in official circles. The exchange policy was more logical and consistent in Australia than in New Zealand, where at least three major blunders were perpetrated. The problems involved bristle with technical and practical difficulties. It is clear enough that in the face of a deteriorating external trade and banking situation both Dominions had to allow the exchanges to depreciate. What is not so clear is the rate which in practice is appropriate and the reactions that a vigorous policy of devaluation may provoke, both internally and externally. In New Zealand, the first move was to prevent the exchange from depreciating; then, in response largely to political pressure, a major act of devaluation was effected before the necessary central bank mechanism had been created. In the result, the devaluation had to be financed for the time by Treasury Bills which returned to the trading banks a comfortable 5 per cent interest, a rate that was under the circumstances grossly excessive. But far worse than this clumsy proceeding is the fact that, in both Dominions, exchange policy has become largely a political matter. Among the rural community and many of their creditors, depreciation, if only it could be carried far enough, was thought to offer an easy road back to solvency. Much of the nominal advantage must, in fact, have passed to the creditors, including the banks and the stock and station firms, and there is evidence that it has not been widely diffused. As to whether the effects of the depreciation were deflationary or not, the authorities are not agreed. The factors at work in the world at large are so complex that it is not possible to assign a price change with certainty to any one.[1] It has been asserted, for example, that the break in dairy produce prices was due, not to competitive devaluation between the Dominions and Denmark, but to increasing production and concentration upon the British market. Yet the increased production was, in part at least, assisted by the exchange premium, for most of the increase in the output took place on existing dairy farms and relatively little resulted from the extension of dairying to other

[1] In his speech at the annual meeting in June, 1933, the Chairman of the Bank of New Zealand suggested that depreciation of the exchange had caused wool-buyers to reduce their limits.

farms as a means of furnishing a monthly cash income.[1] The protective effect of a depreciating exchange should not be lost sight of either. Secondary industries have tended to gain and many articles are now imported into New Zealand from Australia that were formerly purchased from Britain. This result has raised the question as to whether the Ottawa agreements have been sincerely implemented at a time when competition for a larger share of the British market for primary products is intense. Upon the whole it may be said that our knowledge of exchange management under present conditions is too inadequate to support the extravagant claims made for it. Expert opinion in Australia and New Zealand has been to the effect that it would bring the external trade and banking situation into equilibrium, solve the rural problem, enable the budgets to be balanced, increase the real national income, decrease the real burden of the internal debt while leaving that of the external debt unaffected, diminish unemployment, and so on. The harmful consequences of the exchange policy have tended to be slurred over. In the end it will probably be found that, in the words of Mr. R. L. O'Brien, chairman of the United States Tariff Commission, "whatever export advantages a depreciated currency gave that were not illusory were temporary, and whatever advantages were not temporary were illusory."

Expert Opinion. A large measure of responsibility for the policy of authoritarian adjustment lies with those academic economists who proffered advice to the Dominion governments. They proposed, in the recommendations they submitted, what may be described as a typically neo-capitalist solution.[2] In other words, bankruptcy and the lapse of time, which had formerly been relied upon to procure adjustments, were to be superseded by direct breach of contract, required or condoned by law. The most remarkable feature of the reports is the exceedingly confident tone of their authors. One could wish that, like the

[1] See E. J. Fawcett—"The Size and Distribution of Dairy Herds in New Zealand." (*N.Z. Journal of Agriculture*, May, 1935.)

[2] See Report of Committee Appointed by the Commonwealth Government, March, 1932, and review of this in *Economic Record* by Prof. D. B. Copland; Report of the Economic Committee (N.Z. Parliamentary Papers, B-3, 1932); "The New Zealand Economic Problem" (*Economic Record*, May, 1932) by Profs. A. G. B. Fisher and D. B. Copland.

magicians and astrologers called in by Nebuchadnezzar, they had confessed their impotence. For, in that case, what was, and is, far more a political than an economic problem would have been left to the governments concerned and to the subsequent judgment of the electors. The popular view that, in the economic sphere at least, there is no such thing as "expert opinion" has received much justification, more especially because the governments were not prepared to listen to opposing views and because their political aims were more or less in line with the submissions of the economists.

The problem, according to the experts, was to bridge the "gap" between export prices and farm expenditure, to bring costs into a profitable relationship with prices. So far as it goes, few will disagree with the diagnosis, though it is not really profound. What is less certain is how the required adjustment should have been procured. By a combination of reduced real wages, exchange manipulation, economy in public expenditure and "cuts" in rates of interest and in rents, a nicely balanced readjustment was believed to be possible. The economists unfortunately happened upon the phrase "equality of sacrifice," as the basis upon which the reductions were to be effected. This phrase was later explained as meaning that no one should be made better off than before the depression. Yet even if such an idea could be implemented (and it is plain that it could not), justice would seem to require some prior equality of opportunity. The great mass of the population had no responsibility for, nor control over, the economic policies of banks, middlemen, farmers, exporters, and manufacturers; yet they were to have the error of these policies visited upon them, not as hitherto in varying degree according to individual circumstances and perhaps not at all, but uniformly by law. How trashy the detailed recommendations of the economists were can readily be shown. Their reliance upon index-numbers, which are but broad indicators of tendency and which conceal a host of qualitative and other factors, must strike the statistician as remarkable. The bearing of improvements in agricultural technique and of the tendency to autarchy upon prices was not distinguished from the purely deflationary or monetary aspect. Monetary manipulation is not the appropriate

mechanism for adjusting the first two factors (which are non-monetary), if the economic advantage of the community as a whole, and not of a particular section, is sought. Again, it seems crude to argue that if the national income falls by 10 per cent, a flat-rate "cut" in wages of the same amount must necessarily follow; and it might not be amiss to add that while a general *fall* in wage rates has been more than once decreed since the war, the process is never reversed. The flat-rate "cut" in rent and interest rates was equally illogical, for it assumed that, at the time it was imposed, an equilibrium prevailed under which each landlord and investor was already securing the maximum possible. But what is most amazing perhaps was the discovery of the exact percentages which would save the situation. The economists, in fact, became involved in as many contradictions as the economic system which they proposed, like some horologer, to set working again.

Conclusions. These criticisms may appear to be invalidated by the measure of "recovery" that has been achieved. But this has been largely an accounting phenomenon and has not meant an increase in welfare for the mass. Rather there has been a sort of stabilization of poverty and some of the gain in "confidence" is no more than habituation to the spectacle of large-scale unemployment. The proportion of indirect to direct taxation has increased and the burden of unemployment relief taxation has fallen largely upon the lower income groups. In New Zealand, for example, a flat-rate unemployment tax of 5 per cent on practically all incomes yielded, in 1934–35, £4½ million, out of a total taxation of approximately £24½ million and far exceeded the total collection of income-tax. Total taxation, of which 60 per cent is accounted for by indirect taxes (including sales tax) and unemployment tax, is the highest ever recorded, and the burden per head was exceeded only in 1920–21. Against this, the imports of motor vehicles tripled between 1934 and 1935 and imports of other luxury goods have increased in volume. Simultaneously balances pile up in London. All this suggests that the main tendency, if not the aim, of authoritarian adjustment has been to minimize the dislocations in those economic activities which furnish the basis for the operations of various types of

middlemen, including the purveyors of short-term, working credit. For them, the economic system is an instrument upon which to work out their profiteering harmonies, if possible in a major key; for the phrase "farming the farmer" is no mere demagogic utterance.

The insistence upon the traditional remedy of restoring profits at the expense of the lower income groups shows little real consideration for the farmer in the long run, because under existing circumstances there is not likely to result an increase in total purchasing-power owing to increased employment. The banking returns, and especially the statements of London balances, reveal that there is an excess of capital in relation to productive opportunities and under such conditions an attack upon working-class standards of living merely accentuates maldistribution of income and worsens the economic situation as a whole.[1] In any case, in the modern world, the expansion of enterprise takes place along with expanding consumption and a reduction in real wages helps to check that writing-down of capital values which the crisis has shown to be necessary. Cheap land will, in fact, do more to cause profit to emerge than will a compulsory reduction in labour costs. Yet it is not unreasonable to suggest that one of the major aims of the recovery programmes has been, by the ruthless adjustment of costs elsewhere and the transfer of burdens to the mass, to prevent the necessary fall in capital values. Nor has any attempt been made to attack the problem of costs from the side of tariff reductions. It is true, of course, that, over a short period and in circumstances such as have recently prevailed, protectionist measures may have the effect of increasing the total amount of employment. But this has clearly been a secondary consideration.

The great difficulty in arguing against all these neo-capitalist measures is that those who oppose them appear to be doing nothing about what is generally regarded as a dangerous and urgent situation. Yet the effects of authoritarian intervention—the use of political power to protect producers—furnish an excellent argument for *laisser faire*. For the policies which have just been considered, far from breaking down economic rigidities and restoring flexibility to the system, merely substitute other rigidities

[1] On this, see H. G. Moulton—*The Formation of Capital.*

that are far more difficult to deal with. The fact is that the economic system is getting dangerously muddled. There is to be private enterprise and private profit, but any losses are to be borne by the whole community through taxation and monetary manipulation, or by special sections of it by breach of contract as and when required. The weakness of all confiscatory class legislation in times of crisis is that, if it is to be tolerated at all, it must be accompanied by a promise of "never again," for otherwise economic activity will be perilously slowed down. Then, if the crisis does not pass, governments are in a worse quandary than ever. There is, indeed, little evidence as yet that recovery of the pre-1929 order can be achieved and there is no sign, as there must be if private enterprise is to survive, that authoritarian intervention, with all its protective and subsidy devices, is making itself superfluous. For subsidies fail of their purpose if they do not become unnecessary. It is idle to talk of a "just" price or what a producer "needs." That is merely a quaint mixture of medievalism and communism and a futile attempt to combine capitalistic production with authoritarian distribution.

The general effect of all this discussion is to show that however beneficial crisis policies may have been to middlemen and however much they may have done to make the national accounts look better, they have done little or nothing to solve the farm problem. Governments have staked everything upon a recovery in the terms of trade simultaneously with some permanent but minor adjustments in debts and capital values and some gains in efficiency. The farm problem in the end will be solved mainly on the farm and not at the expense of the rest of the community.

6. Rationalization

It is intended merely to mention here a few of the directions in which reorganization is proceeding, or can beneficially proceed, in connexion with the primary industries, so as to render the marketing mechanism more efficient. The improvements that can be brought about relate, in the main, to transport, to the supply of industrial equipment, and to the dissipation of economic resources by the policy of subsidizing the more remote producing districts.

Both Australia and New Zealand are at a disadvantage in that they are distant terminal points and do not lie upon a trade route, where a variety of services might be available at low cost. In addition, the coast-line of Australia is so enormous and the number of loading ports in New Zealand so great that as much time may be required to turn a ship round as to make the voyage from the final port to Europe. The time spent in Dominion waters may even be longer than that required for an outward or homeward voyage. A ship engaged in the Argentine trade may load a full cargo of refrigerated produce at a single port, as compared with half a dozen or more in the case of Australasia. The need for economies in this and in other directions has impressed itself upon the interests concerned, but how far they will be achieved cannot yet be estimated.

Mounting port charges, irregularity in the quantities of cargo offering in both directions, and heavy Commonwealth taxation (including the operation of the Navigation Act) threatened to bring about a rise, rather than a fall, in Australian freights. In 1928, the Commonwealth Government steamers were sold, and early in the following year the Australian-United Kingdom-Continent Conference notified its intention to raise rates, claiming that it had been losing a million a year. Accordingly, at the invitation of the Commonwealth Government, a conference of shipowners, producers, importers, and exporters met at Sydney in April, 1929, to devise measures to secure savings, not only upon dues, taxes, and port charges, but also by economizing the use of the steamers in the trade. A permanent organization, the Australian Overseas Transport Association, was established.[1] This body seeks to diminish the number of ports of call, regulate the provision of berth cargoes so that ships will run less risk of loss from dead freight, and secure a greater volume of business for the regular liner services. It is recognized that there is need for some "tie" between shipper and shipowner, as the former may resort to the regular vessels only in the off-season, when no other freight is offering, and take advantage of the cheaper rates which may

[1] For the objects of the Association and the problems it has to deal with, see articles by J. B. Brigden, *The Argus* (Melbourne), 1st, 3rd, 5th March, 1930.

prevail during the busy export months, when other ships come in for the time owing to the prospect of full cargoes. Agreements which will permit of discrimination against shippers who do not support the regular services have now been legalized,[1] but it is unlikely that these will revive the deferred-rebate system, which was formerly the subject of much criticism[2] and prohibited by law in Australia. Any agreements entered into between shippers and shipowners are subject to the approval of the Association, so that some protection is afforded against abuses. The wide fluctuation in the volume of cargo offering from season to season constitutes a difficult problem, but some effort is being made to forecast seasonal requirements of freight space, though a considerable amount of produce is carried by tramps, which can be called in as needed. The cost of loading at Australian ports is high, ranging from 4s. 9½d. to 7s. 9½d. per ton, as compared with 2s. 11d. to 4s. 6d. for Canada and 3s. 4d. for Cape Town. Costs of discharge are even higher, being from 7s. 11½d. to 11s. per ton at Sydney, against 7s. at London, 4s. 7d. at Hull, and 2s. 11½d. at Hamburg.[3]

The number of bills of lading per ship has been reduced by the efforts of the New Zealand Produce Boards,[4] and though this has not been so great a problem in the case of Australian exports, the number of parcels of meat per steamer has recently tended to increase in that trade. A large number of small consignments means additional expense in sorting to marks after discharge, increased risk of deterioration, and some delay to ships.

In Australasia, the over-supply of industrial equipment in relation to output is most marked in the meat industry. Even before the war, the number of freezing-works was large as compared with other countries. For example, of the total meat imported into the United Kingdom in 1912, 163,973 tons or 24·55 per cent came from two Argentine works alone.[5] The number of

[1] Australian Industries Preservation Act, 1930.

[2] See Final Report of the Imperial Shipping Committee on the Deferred Rebate System. Cmd. 1802, 1923.

[3] See *Economic Record Supplement*—"The Economics of Australian Transport." Also, *Pastoral Review*, September, 1930.

[4] For the conditions which formerly prevailed, see Report of Imperial Shipping Committee on Rates of Freight in the N.Z. Trade. Cmd. 1564, 1921.

[5] Weddel's *Review of Frozen Meat Trade*, 1912, p. 5.

works established in Australia and New Zealand was relatively great owing to the extent of the area served, the seasonal nature of the operations, the lack of internal transport facilities, and the impossibility of directing the trade into a bottle-neck. Yet, after making full allowance for these factors, some excess remains to be accounted for on grounds of undue optimism and parochial sentiment.

An attempt has been made (see table on page 281) to measure the excess capacity of the meatworks in Australia and New Zealand. The chief source of the figures is the periodical census undertaken by the *Pastoral Review*, which covers number of works, daily receiving capacity, and storage capacity of works and stores. Cattle numbers include calves, and sheep numbers lambs. The works are those engaged in the export trade and the storage capacity taken into account is that devoted to meat exports. The daily capacity might be varied by an interchange of sheep for cattle and vice versa, but no satisfactory basis appears to exist upon which to effect conversion and so the figures are left as given. No statistics of numbers of stock treated appear to be available for Western Australia and Tasmania, but their omission is not a serious matter, as the exports from these States are not considerable. In other respects, such bias as was inevitable has been consistently maintained on the side of high seasonal intake of stock, so as to exaggerate rather than under-estimate the efficiency of the works. The excess capacity is not so great in Australia as in New Zealand, but in both Dominions it is very considerable, even allowing for killings during only a part of the year, and for climatic factors. In the Argentine,[1] there are only eleven works (one less than in Queensland alone) and they treated in 1927 a total of 3,233,797 cattle, in addition to nearly four million sheep and lambs.[2] The livestock numbers of the Republic, according to the estimate of June, 1930, were: Cattle, 31,973,802; and Sheep, 43,083,909. The works are able to operate throughout

[1] Excluding Argentine Patagonia, where there are five small frigorificos which treated 630,358 sheep and lambs in 1927.

[2] The figures for the Argentine are from articles by R. Grant (formerly Commonwealth Veterinary Officer in London) appearing in the *Pastoral Review* (Melbourne), 1931, beginning 16th April, p. 353, and continued in subsequent issues.

the year and the number of loading ports is limited to about five.

A comparison of the Danish butter industry with that of Australia and New Zealand is not so unfavourable to the latter, so far as the average output per plant is concerned. A number of factors must, however, be taken into account. In Denmark, whole milk is taken to the factories, whereas in Australasia home-separated cream is usually delivered. Again, the average size of herds and of the number of suppliers per factory is different in Denmark,[1] where, also, the bacon industry is highly developed in connexion with the dairy farms. In Denmark, the factory is rarely more than five miles from any farm, whereas in Australasia much longer hauls are common, so that larger plants are natural. Throughout Australasia, dairy factories have been greatly improved since the war and Eastern Australia and New Zealand now generally possess up-to-date technical equipment. The following figures give a rough comparison of the butter industry in the countries considered—

Year	Country	Number of Factories	Total Factory Production	Average Output per Factory
			Tons	Tons
1930 . .	Denmark . .	1665	225,857	135
1928–29 .	Australia . .	413 (a)	122,119	295
1929–30 .	New Zealand .	135 (b)	73,577 (c)	545

(a) Includes some cheese and condensed milk factories (except in the case of Queensland and N.S.W.) and the average output is really somewhat higher. For N.S.W., it was 390 tons; for Queensland, 660 tons, the range being from under 20 tons to over 2000 tons.

(b) Butter factories only, dual plants excluded.

(c) Production in butter factories only. Total production, including dual plants, 112,865.

One weakness has long been apparent in Australia and New Zealand, viz. competition between dairy factories for supplies. Baits of various kinds, such as free cartage, have been held out

[1] About seven cows per farm and 148 suppliers per factory. In Australia and New Zealand the average herd is larger. The number of registered dairymen in N.S.W. was, in 1929, 21,835 and the mean number of cows 766,505, giving an average herd of thirty-five cows. A similar calculation for Victoria gives eleven cows per herd in 1930. The average number of suppliers per factory in New Zealand was, in 1929–30, 137.

AUSTRALIA AND NEW ZEALAND

NUMBER, CAPACITY, AND OPERATIONS OF FREEZING-WORKS ENGAGED IN EXPORT TRADE, 1912 TO 1932

Particulars	1912	1916	1920	1924	1928	1932
Number of Works						
Australia .	29	26	33	35	31	23
New Zealand .	28	34	41	40	36	30
Daily Capacity—						
Australia:						
Cattle .	2,890	3,915	6,035	6,840	7,010	5,220
Sheep .	56,500	36,900	83,900	72,610	62,600	77,200
New Zealand:						
Cattle .	2,800	2,845	3,780	3,870	3,595	2,920
Sheep .	78,075	102,600	129,900	138,500	134,000	134,600
Storage Capacity— (Tons)						
Australia .	50,222	76,118	104,555	110,139	104,277	72,197
New Zealand .	50,960	99,589	216,348	174,522	177,910	152,783
Stock Treated—						
Australia:						
Cattle .	464,324	485,457	577,469	659,984	388,109	(*a*) 371,699
Sheep .	4,002,041	1,668,989	6,282,509	1,581,836	2,403,552	5,660,344
New Zealand:						
Cattle .	(*b*)	248,425	200,614	270,658	(*c*) 508,225	(*d*) 738,886
Sheep .	(*e*)5,858,134	6,162,000	7,104,283	7,397,023	8,187,045	12,025,152
Stock Numbers—						
Australia:						
Cattle .	11,577,259	10,459,237	13,499,737	13,309,473	11,300,757	12,783,137
Sheep .	83,263,686	76,668,604	77,897,555	93,154,953	103,430,773	110,618,893
New Zealand:						
Cattle .	(*e*)2,020,171	2,417,491	3,101,945	3,563,497	3,273,769	4,072,383
Sheep .	(*e*)23,750,153	24,788,150	23,919,970	23,775,776	27,133,810	28,691,788

Note. Cattle numbers include dairy cattle.
(*a*) Includes 64,487 calves. (*b*) Not available. (*c*) Includes 342,582 calves. (*d*) Includes 541,668 calves. (*e*) 1911.

in order to induce farmers to transfer their milk or cream from one concern to another and the willingness of some factories to pay full price for cream of poor quality in order to diminish their overhead expenses led to the compulsory prescription of differential payments so as to safeguard the quality of the output as a whole. The valuable elements in inter-factory competition need not be lost through economies that will put an end to such waste as the appearance of two or three competing cream lorries on the one road, for the accounts and returns of most factories are published and analysed in farmers' journals. Hence each supplier, wherever he is situated, can form some judgment as to the relative efficiency of the concern he deals with, and factory

managers and directors are stimulated to put forth their best efforts accordingly.

In both the meat and the dairy industries, regional grouping of plants is in many cases desirable and has already taken place to some extent in New Zealand. Excess capacity can be eliminated in this way, more effective marketing organizations can be developed, improvements in quality should result and some savings be secured in expenses of operation.

Much of the capital equipment which serves the export trades was furnished during the period when the terms of trade were favourable in anticipation of an unlimited expansion of output and a growing population to use the facilities that had been made available. Whatever may be the "optimum" population for Australia and New Zealand, it is highly probable that the present inhabitants are not distributed geographically in such a way as to ensure the maximum advantages from the available equipment and resources. This is due largely to the haphazard manner in which new countries are settled. Land is appropriated and brought into use promiscuously and then expensive amenities are demanded by a sparse population which is unable to employ them to the full. There is a confusion of political or democratic ideas with economic. The remoter settlers, who have secured cheap land, press for facilities similar to those in the nearer areas and are usually able to obtain them at the community's expense. In minor centres, the parochial spirit engenders a desire for harbours, railways, and whatnot, and much is done on political and sentimental grounds to favour the high-cost producer simply because he falls into that category. In New Zealand, even rural voting power is greater than urban and the question whether farming is efficient or not is made to some extent a political one.

One vicious consequence of this attitude of mind may be cited. Overseas freight rates are the same from all loading ports in New Zealand, yet the cost of working these ports varies greatly. Figures published by the Wellington Harbour Board a few years ago[1] show that the cost per ton of receiving cargo ranged from 7s. 11d. at Wellington to £3 16s. 11d. at a small out-port. Only about 60–70 per cent of the overseas cargo is shipped from the

[1] See "Protest against the Flat-rate System," p. 2.

four main ports, so that the subsidy to the out-ports represented by the flat-rate system is considerable. Fifteen ports are regularly visited and one steamer may make as many as eight or more calls. At five of the ports loading is done in the roadstead and bad weather may occasion considerable delay. It is not surprising to learn therefore, that a cargo vessel may spend as long as forty-five days in New Zealand waters. It is true that a certain amount of loss is inevitable under the conditions prevailing, and that discharge takes place as well as loading at many of the ports, but it appears that the Export Boards have still much to do to make that loss a minimum. Producers adjacent to the small ports are specially favoured as compared with those whose location compels them to rail their goods to a main centre for shipment. The latter have to bear the high cost of preliminary land transport as well as subsidizing the out-ports. This particular evil is not so marked in Australia where the tendency to multiplicity of loading-ports has been held in check, but the flat-rate freight charge also prevails there in respect of most commodities and appears to have no justification in a country of such vast extent.

7. Grading and Quality

It is only very recently that scientific research has been directed intensively towards the determination of the exact nature and characteristics of the more important raw materials and foodstuffs. The fixing of quality is still largely done by means of subjective tests applied by individuals with long experience of each trade. Some of the judgments arrived at by these methods have been found to have a scientific basis, some have not yet been subjected to a scientific criticism owing to lack of knowledge, and others have been proved to be largely arbitrary. In addition to the kind of investigation which seeks to provide criteria that will serve as a scientific basis for grading, further attention has lately been given to problems connected with refrigeration and the behaviour of stored products.

Grading and quality are necessarily interconnected, standards being set which will tend to increase the amount produced of the quality desired by consumers. But grading is undertaken, not merely to facilitate trading and to enable the requirements of a

market to be met with the greatest degree of economy, but also, in many instances, to determine the price to be paid to farmers for products that have to be processed before sale. The standards ought to afford guidance to producers as to what they should aim at and should be such as will secure for each the reward of his care and efficiency. Grades, associated with brands, may even be an important aid in the education of the consumer who relies too much, as a rule, upon the judgment and integrity of the retailer. It is highly desirable that qualities should be determined for each consignment by objective tests and it is here that scientific research may yield results. If tests of quality can be devised which are capable of application by persons without long experience of the commodity and not dependent upon special training of the senses, then gradings are likely to be more uniform and dependable, and the cost of this service will be reduced. Yet it must be remembered that all efforts may be ultimately baffled by the varying tastes of consumers from place to place and from time to time. Again, at the production end, seasonal variations in climatic conditions may set a definite limit to what it is possible to achieve in the way of fixing permanent standards. This is specially true of wool and wheat, and, to some extent, of meat. Finally, the price paid may on occasion be at variance with the grade, owing to temporary or permanent changes in the nature of demand. Where the discrepancy between grade and price persists, it is evident that the standard no longer conforms to the actualities of the market. For certain commodities, e.g. butter, it is possible to reduce the number of grades to two or three, and it is highly desirable that, wherever it can be done, producers should concentrate upon a single grade of the best quality.

The standards adopted as the basis of payment to farmers by factories or mills may operate unfairly in certain cases or leave loopholes for dishonest practices. In Australia and New Zealand, for example, it is customary to pay for milk supplied to factories according to its butter-fat content,[1] yet this practice does not appear to be equitable when the milk is used for cheese-making, since other constituents, such as casein, are important for this

[1] In Queensland and N.S.W. the basis is the yield of commercial butter, which really amounts to the same.

purpose.[1] Each pound of butter-fat yields more than one pound of butter and this margin or "overrun" may vary considerably from factory to factory according to skill and efficiency in manufacture.[2] Hence a certificate of its amount each season is required by law to be published, so that suppliers, especially of proprietary factories, will be sure that full payment has been made. Sugar-cane is another example of the kind of difficulty here contemplated. The sugar content per ton will vary according to the time of the year, as well as the quality of the cane, and payment by weight alone would not be equitable in the case of cane cut over a short period by each grower.

The disadvantage of distance which separates producer and consumer is that the former usually fails to appreciate how imperative it is to maintain quality. A relatively small quantity of produce below standard has an effect upon prices out of all proportion to its amount. Again, the confidence of the wholesaler or retailer may be destroyed, if he happens upon a defective parcel under a brand or grade mark upon which he has been accustomed to rely. Not only is the trader averse from continuing to deal with the factory or works concerned, but he also suffers a direct loss of goodwill.

The producer's response to the call for goods of certain qualities will depend upon the returns over the whole field of his operations. The fact that the characteristics of wool may be changed by breeding and feeding, so as to render its preparation by existing machinery less costly, does not necessarily mean that the change will be effected, no matter how clamant manufacturers may be nor how much complaint is made about quality. Practices which will assure the maximum return to the grower may not conduce to the maximum convenience of the manufacturer. The Australian breeder has concentrated, upon the whole, on the production of large-framed sheep carrying heavy fleeces. Buyers may find the wools of the smaller sheep of the Western District

[1] See P. O. Veale—"The Yield of Cheese per lb. of Butter-fat." (N.Z. Department of Scientific and Industrial Research, Bulletin No. 13, 1929.) Some N.Z. cheese factories are proposing to base payments to suppliers upon the ratio of casein to butter-fat content of milk.

[2] See N.Z. Department of Agriculture Bulletin No. 109, 1924: "The Overrun in Butter-making."

of Victoria more attractive, but these need to bring about 1s. per lb. more than the Riverina wools in order to be profitable to the grower.[1] The characteristics of wool vary in accordance with the climatic conditions and the type of grazing, and the farmer has to do the best he can under the circumstances. By applying the results of research, he may effect improvements at low cost, but the scope for such improvements is limited. The real point is whether the grower does not do better to grow the wool that is suited to the environment and leave the manufacturer to adapt his machinery to suit. There is, of course, a marked tendency for the latter to throw back on to the producer the task of growing a more highly standardized wool, a tendency no doubt accentuated in a buyer's market. In the wool trade, however, one man's meat may be another's poison. One section of the trade may condemn certain wools which another finds highly suited to its purpose; and wool that is out of favour one season may bring a high price the next. The grower is, therefore, left to judge from the actual returns what policy he ought to pursue. So long as manufacturers themselves do not appear to be agreed as to what attributes of wool are, or are not, desirable, the grower must breed towards quantity or quality, as the market may dictate. His problem is complicated when he is producing fat lambs along with wool, for the price of meat does not fluctuate so much in the course of the season as does that of wool and he is compelled to concentrate upon getting early-maturing lambs of the desired shape, rather than upon the growing of wool that will please manufacturers. The prices actually paid for wool may bear no relation to the breeder's conception of quality and may induce him to change his practice against his better judgment.

The trade descriptions applied to wool give only a very rough indication of quality and at present the possibility of purchases being made on grade seems remote. Some attempt has been made to standardize types and a measure of agreement has been reached as to how far qualities from one producing area and

[1] See Dalgety's *Review*, 1927–28. For New Zealand wools, see D. J. Sidey—"Faults Found in New Zealand Wools" (*N.Z. Journal of Agriculture*, August, 1931, p. 96).

another correspond.[1] Other suggestions, such as shearing wool to length rather than seasonally, or treating it by solution and regenerating it into a uniform filament, appear to be outside the range of what is practicable. Much may be done by breeding to render wool softer or more lustrous, thus enabling it to compete more effectively with rayon, but any developments in this direction must depend upon prices.

Many of the problems connected with the quality of dairy produce are only beginning to be tackled. It is realized that butter, for example, is a very complex substance. On account of its mild flavour, New Zealand butter has been described as "characterless" as compared with Danish. The former must possess keeping qualities and for purposes of storage, as well as in regard to vitamin content, it is superior to the latter. Until after the war, the problem of keeping butter of full flavour wholesome was solved by the use of preservative in the form of boric acid. Now that its use is no longer permitted, pasteurization of milk or cream before manufacture has to be resorted to in order to ensure that the produce will keep and a low-acid butter results. There is evidence, however, that foodstuffs of milder flavour are experiencing a greater demand in Great Britain and this, together with the lower price which the Australian and New Zealand farmer is able to accept, may serve to bring his produce into favour in districts where it is now seldom consumed. Cheese quality presents even more difficult problems to the scientist. Openness of texture, delayed maturity, and undesirable flavours are all matters that are in process of being rectified by research. Though the grading of both butter and cheese depends to a very large extent upon tests made by the senses, a method which is fallible but which has at least some relation to consumers' palates, a large proportion of the output falls into the two upper grades, which generally sell on description.[2]

[1] British and U.S.A. types have been compared and standards adopted which will cover both (Dalgety's *Review*, 1925–26). The same has been done for Australian and South African wools. See also *World's Wool*, 1929, p. 82.

[2] For N.Z., the percentage of butter of finest and first grades during each of the past five seasons has been: 98·63, 98·85, 98·96, 99·06, 98·75; and of cheese: 98·07, 97·32, 98·09, 97·79, 98·1. For Australia, the proportion of choicest and first grade butter was 87·31 per cent in the 1930–31

The grading of wheat has already been discussed in detail. Meat is in a somewhat similar category, since qualities and weights may vary from season to season according to the condition of the pastures.[1] The weights prescribed for the various grades of mutton and lamb are now largely standardized and are common to New Zealand, Australia, and the Argentine. The range of weight within each grade is limited to 7 lb., but large numbers of lambs are produced in New Zealand of practically identical weight, finish, shape, and outward appearance. On occasion, second quality lambs may bring more than prime, if the latter happen to be above the weights desired by some trader. The transport of beef in the chilled state from Australia and New Zealand has recently become possible and improvements in breeding and feeding of cattle are likely to follow if market prospects are at all favourable. The New Zealand Meat Board refuses to permit the export of any meat below second quality, but third qualities are shipped from Australia to Great Britain, a policy which is against the interest of the trade as a whole.

A widespread demand has grown up among producers for the marking of foodstuffs in shops according to the country of origin. So far as this demand is likely to serve as a protection to consumers and as a means of bringing a source of quality goods to the notice of the public, it is justifiable, but when it is merely a manifestation of the spirit of economic nationalism, it may prove harmful to those who make it.

Quality tends to fall off when prices are high and usually improves under the stimulus of lower returns. Still lower prices

season. Australian dairymen have pressed for the appointment of a Commonwealth standardizing officer to standardize butter-grading for the whole country and eliminate the discrepancy which appears to exist as between certain States.

[1] The average weights of N.Z. mutton and lamb carcasses have been in recent years as follows—

Year	Wethers	Ewes	Lambs	Year	Wethers	Ewes	Lambs
1925–26	54·6	54·1	34·3	1930–31	53·0	53·2	33·2
1926–27	55·9	54·5	34·8	1931–32	52·9	52·2	32·8
1927–28	56·4	54·7	34·5	1932–33	55·1	52·9	34·1
1928–29	58·0	55·3	34·9	1933–34	54·8	54·4	34·2
1929–30	55·4	54·2	34·3				

(Weights in lb.)

than those which have recently prevailed would, however, make the quality premium hardly worth while.

8. Orderly Marketing

Orderly marketing as a remedy for low prices is no novel proposal. It was examined at least once towards the end of the long agricultural depression that marked the later years of the nineteenth century and the idea has been revived since the war.[1] It assumes that a flaw has developed in the marketing mechanism and that those whose business it is to regulate the flow of goods to consumers have either been eliminated or are for some other reason unable satisfactorily to exercise their functions. At first sight, it appears to be an attractive proposition to restrict supplies in order to check falling prices. Yet producers are not sufficiently aware that they must not only control the bulk of the supply in order to achieve their purpose, but also limit output, if need be. These considerations do not, however, apply exactly to what is usually meant by orderly marketing, which merely proposes to set limits to the wider fluctuations in prices. Unfortunately, thus reduced, the policy is exceedingly difficult to apply and must approximate to that of a competent middleman seeking to regulate his rate of selling in a manner calculated to yield the highest return. One other aspect of the problem concerns the available supply of capital equipment, which may be most economically used, as a rule, when it has to deal with an even flow of goods, though here the rate of production is the dominant factor.

It is difficult to see what test, other than something very like rule-of-thumb, can be employed to determine the rate at which goods should be marketed. In the first place, agricultural production in Australia and New Zealand is highly seasonal and even winter dairying is not developed to any extent. Again, the policy adopted must be modified in some respects for each commodity according to the conditions of production. Thus, the whole of the annual output of wheat and wool becomes available within a

[1] See bibliography for this section. All the studies show conclusively that the idea that the farmer either "rushes" his goods to market or can normally expect higher prices by holding is erroneous.

comparatively short period, whereas the production of butter, cheese, meat, etc., is less discontinuous. A wheat crop might be sold at a prescribed rate, since no addition to supplies before the next harvest would interfere with calculations. Wool is actually sold under a system of regulation which works satisfactorily on the whole. Yet the best laid schemes in regard to dairy produce and meat may be upset, since in some years climatic conditions cause abnormal fluctuations in output from time to time as the season proceeds. Accordingly, the system adopted by the New Zealand Dairy Board[1] whereby the percentage of the season's output to be shipped during stated periods is determined is based on something very like guesswork, though the guess may be the best possible and worth hazarding.

The difficulties involved in this kind of forecasting in relation to production within a given area are slight, however, as compared with those met with in attempting to rule out conditions of glut or scarcity in the market itself. The factors of which account must be taken are so numerous and so complex as to baffle all attempts at precise calculation and include, at the moment, such elements as sudden tariff and other similar changes. The amount and rate of marketing of competing supplies have to be allowed for, as well as weather conditions at the points of consumption. Producers, however, appear to be thoroughly convinced that the matter cannot be left to the play of market forces. They know that the middleman exacts a high price for undertaking to carry stocks and generally to equate supply to demand. His business is to buy cheap and sell dear and he is in a favourable position, owing to his inside knowledge, for doing both. In practice, competition cannot be relied on to restrict the middleman's profits and hence farmers are tending more and more to usurp his functions.

While the costs incurred in pursuing a policy of orderly marketing are readily calculable, the gains or losses that actually accrue cannot be exactly determined, especially during a regime of deflation. It is inaccurate to assume, as is usually done in

[1] See more especially the Board's First Annual Report. The Australian Board also attempts some regulation of supplies. Neither Board is able, of course, to influence the rate of sale of goods in second or third hands which may undo all their efforts.

such cases, that the price ultimately received for withheld goods will be that which would rule were the market uninfluenced by any concerted interference. If more goods are to be sold at the high points and fewer at the low, prices at both times will be different from what they would otherwise be. The wisest policy appears to be to keep the market supplied, to pause before imposing restrictions if prices fall, and to guard at all costs against mounting stocks.

The New Zealand Meat and Dairy Boards have made much of the question of orderly marketing, but no worth while estimate of the success attending their policy is possible. Certainly it has not of itself induced any marked accumulation of stocks. The following figures[1] show that while the margin between the highest and lowest quotations recorded during each year for New Zealand butter and lamb has narrowed, no similar change has taken place in the case of cheese—

Season	Margin between Highest and Lowest Quotations		
	Butter	Cheese	Lamb
	s.	s. d.	d.
1924–25 .	66	14 0	2¾
1925–26 .	60	25 0	2½
1926–27 .	28	20 0	1½
1927–28 .	28	20 0	1¾
1928–29 .	24	28 6	1¼

If the producers are undertaking the work of carrying stocks to a considerable extent, it might be expected that fluctuations in market quotations would be smoothed out, yielding higher margins of profit per unit at the peak of production to compensate for storage charges, etc., incurred later on. Even if they are, it is not possible to argue either that the net returns over the whole output are greater than they would otherwise be or that the higher degree of stability is the result of the policy pursued and not merely fortuitous.

[1] Source: Ministry of Agriculture and Fisheries, Agricultural Market Report.

CHAPTER VI

THE MARKETING PROSPECT

1. Imperial Preference and "Empire Free Trade"

A perusal of the literature relating to the tariff controversy of a generation ago leaves the impression that history has been repeating itself with a vengeance. Recently, however, circumstances have been much more favourable to the advocates of protection, since the end of a decade of economic instability finds the world struggling against the severest depression ever recorded. In the Dominions, the losses to primary producers, and to the landed interest generally, were so heavy that pressure was put upon Great Britain to induce her to change her fiscal policy. Indeed, that such a change, if it eventuated at all, would be made upon political, rather than upon economic, grounds was long ago foreseen.[1] Further, the view that taxes upon food would become imperative in Britain, if expenditure upon defence and social services continued to rise, was emphatically expressed in some quarters before the war[2] and has been revived in the revenue tariff proposals.[3] The political confusions in Britain in 1931 and the abundance of supplies directed to that country favoured the return to protectionism because, in a buyer's market, prices were not likely to rise and the "foreigner" might for the time be made to pay the duties. Yet ever since the war, a host of voices have been speaking, some in the tones of the idealist who would preserve the unity of the British Commonwealth, others in those of the realist bluntly seeking his own advantage. As far back as 1923, for example, Mr. S. M. Bruce declared: "The last thing Australians desire is to substitute some other country as a market for their primary products. But they cannot afford to hold up their development and meanwhile practically every foreign country of any standing has offered to give Australia preferential

[1] Fuchs—*Trade Policy of Great Britain.* Preface.
[2] Drage—*Imperial Organization of Trade*, pp. 216–7.
[3] E.g. in *The World's Economic Crisis and the Way of Escape* (Halley Stewart Lecture, 1932). By Sir Josiah Stamp.

treatment on her primary produce in exchange for similar treatment on their manufactured goods. We will have to face the facts, if Britain will not respond more liberally." Mr. Bruce went on to say that he had hopes that at last the conditions in Britain were favourable to the proposal, because formerly there had been no real pressure of circumstances such as now existed in the unprecedented distress.[1] That utterance calls to mind the brave words of Alfred Marshall, written nearly a generation ago: "But the history of all countries and all ages is repeating itself in the colonies. Even honourable men there are being drawn into slippery paths. They advocate preferential arrangements effected by raising the tariff against foreign goods without lowering it in favour of British goods; and they put into the forefront their zeal for the high ideal of Imperial unity. They look as little as possible at the private gain which may accrue to them from the particular method of promoting that ideal which they advocate."[2] Another and more recent view may be cited in order to show that the attitude just deprecated had not been modified by 1929. In its Final Report,[3] the Committee on Industry and Trade, with more honesty perhaps than prescience, observed: "The idea of definite reciprocal tariff bargains between Great Britain and other Empire Governments, fixing the terms upon which inter-Imperial trade should be carried on, is quite alien to the modern spirit and practice of Imperial preference."

The objects which the advocates of the new fiscal order had in view were clear enough, though for obvious reasons they were not generally stated in precise terms. It is plain that Dominion producers saw in a British preferential tariff a lever wherewith to raise the prices of their goods. It cannot be doubted that their aim was to secure, through the agency of the British Government, that protection to agricultural produce which their local tariffs could not hope to yield. A secure advantage in the British market, for example, would have enabled Australian dairy-farmers to make their "stabilization scheme" watertight, so long as there was no Empire surplus of butter. But for wheat and wool even

[1] *Journal of the Parliaments of the Empire*, Vol. IV, p. 839.
[2] *Official Papers by Alfred Marshall*, p. 418.
[3] Cmd. 3282, 1929, p. 23.

Imperial preference could do nothing, since there is an Empire surplus of these commodities and a marketing monopoly would have to be organized between Canada, India, and Australia, on the one hand, and between South Africa, New Zealand, and Australia, on the other, if a British tariff were to be rendered effective. Indeed, any stimulus to Empire production might bring other commodities into the same category as wheat, among them being cheese, of which Empire countries supply over 90 per cent of Great Britain's imports. It is true enough that, in recent years, prices of primary produce have fallen too low, but it is doubtful whether a tariff could serve as more than a temporary expedient for raising them.

The advocates of the extension of tariff preferences by Great Britain saw clearly enough that this would raise real income in the Dominions, but had exaggerated ideas of the net gains that would accrue. They assumed that the Dominions, by their preferential systems, had furnished in advance an adequate *quid pro quo* and they slurred over the fact that the British farmer is as much the competitor of the Dominion producer as is the foreigner. Indeed, the advocates of protection in Great Britain looked for an expansion of British agricultural output which of itself would in time have limited the Dominions' share of the market. Possible effects on the cost of living and on industrial costs in Great Britain, not to mention the Dominions where prices would rise too, were conveniently overlooked. What was wanted was some means of rectifying the economic position of producing interests in the Dominions without recourse to adjustments of costs, output, and capital values. In the days before currency manipulation and authoritarian intervention to reduce costs, a preferential tariff seemed to be the obvious way out, especially as it would not involve political complications in the Dominions themselves. But any such Imperial tariff system would not hold out any prospect of stability. As Professor Pigou remarked long ago, "once a policy of this kind has been started, it is apt to develop within itself an expansive power, which can neither be calculated beforehand, nor resisted when it appears."[1] A preferential tariff that did raise prices effectively would be capitalized by

[1] *Riddle of the Tariff*, p. 63.

landowners at more than its worth, and pressure for a still higher tariff would result. Any fiscal arrangement that might be devised is objectionable, for all forms of protection involve a net economic loss to those applying them, whatever gains may fall, for the time, to the astute and the fortunate among the bargainers. The fact is that when Great Britain decided to abandon free trade, her best alternative was to impose uniform duties against everybody, including the Dominions. For any kind of preference extended to them would be a tax upon British consumers for their benefit, so far as higher prices resulted, and would largely defeat the twin objects of protecting British agriculture and raising revenue.[1] For the Dominions believed, and still believe, that whatever duties they might levy on British goods, their produce should enter Britain duty free. It has been all too plain that the kind of preference extended to Great Britain by the Dominions is largely a spurious one. Even where an existing preferential duty is reduced, the customs barrier may remain a formidable one. A preference that may be, in fact, no preference is akin to "Empire Free Trade" that is not free. For to pretend that an Imperial Zollverein is practicable, let alone desirable, is to bury one's head in the sand. "The interests of the various units of the British Empire are as diverse as their situations and the radical differences in their tariffs are the outcome of the striking economic differences between the units."[2]

The notion of "Empire Free Trade" appears to have been based in the first place upon what might be termed a calculus of resources. It was represented that the British Empire was, or could readily become, self-supporting. Unfortunately, the doctrine of self-sufficiency had already been preached and practised in and for the separate Dominions, e.g. Canada and Australia. Neither of these has any qualms about barring out goods from other parts of the Empire, and it was bluntly stated by their representatives at the 1930 Imperial Conference that, so far as

[1] A preferential tariff would, of course, mean less cost to the Empire *as a whole* than uniform duties, since there would be less displacement of industry in the direction of higher cost activities. The Dominion preferences, so far as they are effective, also give British manufacturers the right to tax Dominion consumers. Mutual preferences merely advantage particular interests, not the community at large.

[2] Davidson—*Commercial Federation*, p. 70.

they were concerned, "Empire Free Trade" was out of the question. However that may be, it is plain that whether a country or group of countries can be "self-supporting" depends upon what standard of living is contemplated by that term. Clearly the highest possible standard of living will not be attained under a protective system, since it directs productive effort into more costly channels. Again, it is plain that the British Empire *is* not self-sufficing and cannot be made so unless sufficiency is attained by the negative process of going without a multitude of things and by living on short commons. It is possible, indeed, to destroy the argument based upon a calculus of resources by a *reductio ad absurdum.* Great Britain—or, in fact, any habitable region—could produce the minimum of commodities required to keep her population *alive.* There is almost no limit to the discomfort that will be endured in order to stave off death by starvation, and Professor Leacock's herdsmen may yet be seen, some future summer day, tending the (to be) domesticated musk oxen of Canada's northern wastes, if they *have* to or if the thing that yields them the maximum satisfaction in life is the filling up of all the red bits on the map at any price. The same may be said with regard to the 250 millions which the same authority would cram into Australia.[1]

Even if the Dominions were willing to reduce their tariffs in Great Britain's favour, the extent to which they could do so and the advantage which would actually accrue to the mother country would depend upon how far these tariffs were for revenue or for protective purposes. It is true that it is difficult to distinguish between these in practice, since revenue tariffs tend to become protective. But the extent to which Australia and New Zealand could reduce their customs duties may be gauged from the fact that the proportion of customs and excise to all taxation (including local rates) was in 1926–27 42·6 per cent in Australia, 38·7 per cent in New Zealand, and 26·6 per cent in the United Kingdom. Of the total taxation levied directly by governments, the proportions from customs and excise duties in the year

[1] *Economic Prosperity in the British Empire,* p. 62. Prof. Griffiths Taylor put the "optimum" population for Australia at 20 millions. A later estimate (F. C. Benham in *Peopling of Australia*) is 10 to 15 millions.

mentioned were for Australia 49·4 per cent and for the United Kingdom 33·6 per cent.[1] In 1927, the percentage of free goods in the total imports of Australia was 36, and of New Zealand 42, as compared with 64 for the U.S.A., usually reckoned as the outstanding example of high protection.[2] It is clear, therefore, that Australia and New Zealand depend to a very large extent upon customs duties for their public revenue and that any abatement of these duties would be unlikely to increase very much the demand for British goods. The revenue so lost would have to be made up from some other source and the purchasing-power of consumers would remain very much as before.

By 1931, it was evident that any fiscal arrangement come to with Great Britain must, on balance, be in favour of the Dominions.[3] For they were pressing their claims to effective preference, not because they had a *quid pro quo* to offer which would involve a real sacrifice by them, but because their primary producers were suffering from all the forces—monetary, technical, and fiscal—which have induced the recent heavy fall in prices. Judging by past experience and the distribution of her export trade, it was hard to estimate what, if any, benefit would accrue to Britain from adjustments in the two-decker tariffs of the Dominions, but it was plain enough that a heavy duty on Danish butter, say, would have put the New Zealand dairy farmer on his feet for the time. Consumers in Great Britain, however, would probably have developed a prejudice against Dominion goods, as they did under preference in the nineteenth century, and if high prices could have been ensured by the manipulation of the tariff when and as required, quality would, in fact, have tended to fall off. Any fiscal change, induced by the political sentiment or by the economic stresses of the moment, cannot bring enduring benefits and the inevitable reaction may work as great havoc among producers as the inflated prices of the post-war boom.

The political skirmishings of 1930–32 led up to the Ottawa Conference at which, in the view of some Dominion statesmen,

[1] *The Australian Tariff: An Economic Inquiry*, pp. 182–3.
[2] *Ibid.*, p. 171.
[3] The fact that each Dominion is restricting the import of produce from the others of itself makes the pressure on the British market more severe.

Great Britain was at last to "come clean" by making a decisive alteration in the terms of trade in their favour. The spokesmen of Canada and Australia made it clear that there was to be no more shilly-shallying. For example, on 25th May, 1932, in the House of Representatives at Canberra, Mr. S. M. Bruce expressed the hope "that a recent press cablegram setting out that unless the Dominions granted new and greatly increased preferences to British goods Britain would not re-enact the 10 per cent general preference upon Australian goods did not truly reflect the British point of view for the Ottawa Conference. If it did, it would be necessary to remind the British representatives in no uncertain manner that Australia for many years had been granting British goods very substantial preferences, without any reciprocal treatment." Under the circumstances, it is not surprising that British statesmen looked forward with little relish to the hour of decision. The protectionists in Britain, who had contributed so much to the success of the National Government in 1931, had made an Imperial fiscal system part of their programme, in order to increase the pressure of the demand for tariffs. Their major, and perhaps their only, aim was to secure protection for British industry and agriculture. It was left to others to solve the problems raised by the propaganda in favour of Imperial preference. The British delegates to Ottawa were faced with the impossible task of finding some means of compromising upon issues that were fundamentally irreconcilable. They had to safeguard British agriculture and British trading interests with foreign countries; they had to grant, or appear to grant, some concessions to the Dominions and secure in return some advantage for British manufacturers; and they had to beware of making any bargains that might cause a revolt among British consumers. Indeed, Mr. Ramsay MacDonald gave the whole show away in the House of Commons debate on the Ottawa agreements on 18th October, 1932, when he said: "The British delegates went to Ottawa charged with the duty of coming to an agreement with the Dominions and not letting the conference break down. All that we have done is to put up the stiffest fight possible in order that the tariffs should be as advantageous as possible to this country."

Even within Australia and New Zealand, there was no sufficient degree of unanimity to enable a clear-cut Imperial economic policy to be formulated and implemented. If the agricultural interest can get something without much sacrifice by the manufacturers, well and good; but farmers themselves are not agreed that any marked concession in favour of British goods is desirable. Again, many British concerns that have established factories in the Dominions are not anxious to see their tariffs reduced; and some Australian and New Zealand manufacturers have pointed to the uncertainties introduced by Imperial bargaining under which they might lose at any time some of the existing protection in order that advantages for primary producers might be won.

In the result, the Ottawa agreements amounted to very little. They were a patched-up compromise which represented the greatest common measure of agreement or disagreement. By the time they were effected, Australia and New Zealand were beginning to discover other methods of relieving the pressure, such as exchange manipulation. In some directions, the conference worked definite harm. It tended to confirm the preposterous idea that, when a country purchases goods from abroad, it does so as a favour—a friendly and generous act. It directed its attention to the interests of the selling classes, to the profits of the industrialists, farmers, and business men concerned, and not at all to the gains or losses to consumers. It had other harmful reactions upon world trade. When Great Britain first resorted to protection, Government spokesmen asserted that the new tariff was a purely defensive step forced upon the country by foreign restrictions upon trade, useful for rectifying the immediate balance of trade and as a bargaining weapon to secure reductions of tariffs abroad and a more liberal commercial policy in general. But the Ottawa agreements committed Great Britain to a permanent protectionist policy.[1] The "spirit of Ottawa," indeed, was one of the elements of current world economic policy whereby statesmen, instead of checking the crisis, merely help to prolong

[1] It may be worth noting that the Ottawa Conference declared that inter-Imperial commercial agreements are outside the sphere of the operation of most-favoured-nation treaties with foreign Powers. Thus economic ties appear to have been substituted for the political ties relaxed by the Statute of Westminster.

and intensify it. For many countries have raised their tariffs, or imposed a tariff, merely in order that they might have some preference to offer when negotiating trade agreements.

The practical results of the Ottawa Conference have been as meagre as the agreements there effected. In the first place, the adoption of the principle of comparative costs of production as the basis for duties on British manufactures meant begging the whole question. Such costs would, under any circumstances, be difficult to determine. Under conditions of fluctuating exchange rates, their calculation would be well-nigh impossible. This principle of comparative costs left a convenient loophole for those Dominions which preferred to adhere to the letter of the Ottawa agreements, rather than to their spirit. But some of the "concessions" on the British side were unreal. For instance, the duty of 2s. per quarter in favour of Dominion wheat was to be contingent upon their supplying it at the world price. Again, the preferences on dairy produce meant, under the circumstances, not higher prices to the Dominions but simply easier access to the British market. On the other hand, only New Zealand appears to have made effective tariff reductions in Great Britain's favour. The meat restriction agreement which followed Ottawa was probably the most important development so far as Australia and New Zealand were concerned, for it specially favoured them as against South America. But though prices of mutton and lamb and of South American chilled beef improved, the meat agreement did nothing for the British beef producer. Since the Ottawa Conference, there has been some increase of intra-Empire trade. It would be difficult to maintain, however, that this was a direct outcome of the Conference, that it is necessarily valuable in itself, and that there has been no corresponding loss of trade with foreign countries. Inevitably, the raising of tariff barriers elsewhere forced Australian and New Zealand producers to resort more and more to the British market and some increase of imports from Great Britain was almost bound to follow.[1]

The tendency since the Ottawa Conference has been, unfortunately, to regard inter-Imperial relations as primarily economic.

[1] See the analysis by Sir Geo. Schuster in the supplement to the *Economist*, 3rd November, 1934.

It is likely that Imperial Conferences of the future will tend more and more to be mere bargaining counters. Whether such a development will conduce to that Imperial unity which is so desirable need not be discussed. It has been said that England lost half her Empire by taxing her colonists and was likely to lose the other half by refusing to allow them to tax her. If the emphasis upon material advantages continues, the disintegration of the British Commonwealth would appear to be inevitable. When a trading concession by Great Britain is hailed in a Dominion as a "victory" to be exploited at the next election by the party which achieved it, the fear of dissolution is by no means fanciful.

2. Development of Imperial Marketing Organizations

It will be evident from the discussion in Chapter V that producers have set their hearts upon authoritarian remedies for their troubles. Excess production, in the British Empire at any rate, is not to be corrected, though output within that tariff region may, of course, tend more and more towards excess, especially as population is not likely to increase greatly. The gospel behind the Australian dairymen's monopoly may then be applied to the British Commonwealth at large, which may furnish "the foreigner" with cheap supplies of certain articles in order that particular interests may benefit at home. Any such departure would be unfortunate, not merely on account of the vicious attitude of mind underlying it, but because since the war some hopeful developments have taken place in connexion with producers' marketing organizations and these are likely to be stayed by the advent of fiscal favours and the new methods required to secure them.

There are three main directions in which the development of Imperial marketing organizations can usefully proceed. The first is by the linking up of farmers' co-operatives in the several Dominions; the second by the collaboration of consumers' co-operatives in the United Kingdom with farmers' companies abroad; and the third by the provision of a centralized service for research and market information. Something has been achieved in all these directions. Mention has already been made

of the Overseas Farmers' Co-operative Federations Ltd.[1] The capital of this London organization was subscribed by the Australian Producers' Wholesale Co-operative Federation, the Farmers' Wholesale Federation (New Zealand) Ltd., and the Federated Farmers' Co-operative Association of South Africa Ltd. The Overseas Farmers acts as the London representative of these three co-operatives and, through them, of all the affiliated local associations in each Dominion. It markets produce of any kind in the United Kingdom and on the Continent, and serves as a buying agency for the collective purchase of farm and other supplies. It has a seat on the Baltic Exchange and is a member of the London Provision Exchange. These brief details will suffice to indicate the potentialities of this organization, which requires only more stable economic conditions, continued efficient management, and adequate support by producers in order to reform the whole marketing process.

Two developments in regard to the marketing of dairy produce have also been noticed. One concerns the association of the English Co-operative Wholesale Society with a New Zealand producers' co-operative. The former Society is also in close contact with the Western Australian co-operative. Generally, however, it may be said that the outlook for further development in this direction is not at present very hopeful. Many producers see in the activities of the C.W.S. an effort to cheapen goods and nothing else and, in any case, farmers, as capitalists, are probably opposed to urban consumers' societies. Australian and New Zealand dairy concerns are linked up in a London marketing company which is known as Empire Dairies. The original shareholders were the Australian Producers' Co-operative Federation and Amalgamated Dairies, the latter not being a purely co-operative body. Some attempt has been made to broaden the basis of the concern by inducing other co-operatives in New Zealand to affiliate, apparently with little success. It was hoped that Empire Dairies would extend its business to other Dominions, but this has not proved possible.

It is to be regretted that it was not found possible to arrive at some arrangement whereby the Empire Marketing Board might

[1] See Chapter IV, Section 6.

have been kept in existence, though the Imperial Economic Committee and other organizations have commendably carried on some of its least dispensable activities. While the scope of the work that could be undertaken by the Board was strictly limited on the commercial side, it was a specially suitable organization for performing and co-ordinating such functions as advertising, economic and scientific research, and the provision of market information.

At the moment (1936) the tendency is to rely more than ever upon the efforts of governments in order to secure favourable market returns and less and less upon those voluntary organizations which the producers had built up. Indeed, some of the efforts towards the extension of co-operation to a wider field are likely to prove abortive. The semi-official control board is regarded as offering an easier means of attaining the goal than old-style co-operation. The Australian wheat pools are languishing and the control movement, in one guise or another, is invading almost every sphere of rural enterprise. Whether the results will justify the expectations remains to be seen, but it is clear that, if a relatively free economy is to survive, something of the co-operative spirit will have to be carried over to the control movement which is tending to harden into monopoly.

3. The Future of Inter-Imperial Trade

The future of inter-Imperial trade is at present so obscure that all that can be done here is to offer some discussion and suggestions. At this distance, it is plain enough that the arrangements come to at Ottawa provided no definite or permanent solution of the economic problems they purported to deal with. Nor, in the nature of things, could any such solution have been found. For in these days history is being made and nations are feeling their way towards new policies and a new equilibrium. The creation of a Milk Marketing Board in Great Britain and the weakness of the meat market led to a suggestion of restricting dairy produce imports into that country and to proposals for quotas and levies for meat. Despite a large increase in milk production in Britain and in the dairy produce output of Australia and New Zealand, the question of restricting imports was

shelved. The post-Ottawa voluntary limitation of meat imports did not result in any improvement in British beef prices, though the output had not increased for a quarter of a century.[1] This fall in beef prices was mainly due to a marked shift of demand away from beef and partly to the fact that the exporting countries had not always strictly adhered to the supply arrangements. Further, the limitation of imports caused a rise in the price of South American chilled beef, which was tending to drive the frozen product from the market;[2] and the price of mutton and lamb from all sources (including Britain) rose between 1932 and 1934 despite an increase in supplies.

Faced with the critical situation of the beef producers and the heavy cost of subsidizing them, the British Government persisted with its proposals for regulation of imports or levies or both. Australia and New Zealand opposed these, though the former would have preferred the levy to the quota. New Zealand mutton producers rightly felt that they should not be called upon to subsidize British beef by paying a levy. For even if all beef prices rose in consequence, which was unlikely, little advantage would accrue to New Zealand which does not export much beef. Again, whether any levy that would not raise prices too much to please consumers or would not be too burdensome on producers abroad would be adequate to make British beef production profitable is doubtful. The British wheat subsidy has little effect upon the cost of living because a relatively small part of the grain consumed is produced at home. But the same is not true of beef. And even if an adequate subsidy to British beef were available from levies, the play of demand, as has already been noticed, might cause the price of beef to fall further, especially if there were no shrinkage in supplies. From the British consumers' point of view the levy method had some attractions, despite the enthusiasm of the Minister of Agriculture for quantitative restrictions. Great Britain had something like a buyer's monopoly, especially of beef, and the exporters would pay the levy without raising

[1] Imports of Meat into the U.K. Cmd. 4828, 1935.

[2] British imports of beef fell from 700,000 tons in 1925 to 608,000 tons in 1933. Imports of chilled beef from S. America fell by 3000 tons and of frozen beef from all sources by 60,000 tons (55,000 tons from foreign countries) during the same period.

prices. But the British stock raiser would not in that case derive any advantage apart from the subsidy from the levy. Even a heavy tariff would not necessarily benefit him, for that could be got over by exchange depreciation or export subsidies. On the other hand, a quota, if really restrictive, would raise prices of meat for all suppliers and not merely for the British alone. The cost of living would be affected in Britain, but not necessarily in the supplying countries which might sell cheaply at home the surplus beyond the fixed quota. From the Dominion producers' viewpoint, however, quantitative regulation might be very dangerous. If a quota is imposed, competition among farmers to sell their stock will be increased and middlemen can buy cheap from them and sell dear in the British market. Hence some sort of pool would have to be organized and the gains shared out.

These somewhat tedious manœuvrings have resulted at length in the shelving of the meat question for another year or more. It is perhaps interesting to note in passing how far astray the policy of straightforward tariffs has gone. For levies and quotas were hardly what the protectionists looked forward to in 1931. The difficulties attending the meat negotiations between Great Britain and Australia and New Zealand in London this summer (1935) confirm what has already been said about the dangers of inter-Imperial bargaining. Once more, after much plain speaking on all sides, a kind of moratorium has been arranged. The approximate quantities of meat to be imported from the two Dominions down to the end of 1936 have been arrived at and appear to involve no more than a limitation upon any considerable expansion during the period. The new chilled beef trade may not increase as rapidly as was hoped, but there is to be no cutting-down of exports as a whole. Meantime, British beef production is to be subsidized out of the general revenue, a procedure which may be costly, but which is far more equitable than penalizing consumers. In any case, the need for reforming the methods of fat-stock marketing in Great Britain has been patent for many years and in that direction more can probably be done for the beef producer than in any other way.

The methods of regulating the trade in primary produce, and more especially meat and dairy produce, remain, therefore, to be

determined. Assuming that any marked revival of *laissez faire* is unlikely, it is possible to suggest in a general way the lines that the control of trade will follow. It is plain that, in the crude forms in which they have been proposed, quotas and levies will not be resorted to, because the necessary mechanism to ensure that the benefits of regulation do not flow into the pockets of middlemen is not in existence. Some regulation of Australasian exports to the British market would appear to be inevitable even though quantities are not reduced below current levels. Some flexibility of agricultural output must be allowed for, if only on account of climatic influences. In favourable seasons, surpluses beyond domestic and British quota requirements would appear and some authority would need to be given power to equalize returns from the several outlets. Such control authorities already exist in embryo. In December, 1934, the Australian Agricultural Council was established. Its general purpose is stated to be to co-ordinate agricultural industry. Some of the objects proposed for the Council point clearly in the direction suggested. These include: "To ensure, as far as possible, balance between production and available markets; to consider the requirements of agricultural industries in regard to organized marketing; to promote the adoption of a uniform policy in external marketing problems, particularly those pertaining to the negotiation of intra-Empire and International Agreements."[1] The recently constituted Executive Commission of Agriculture in New Zealand is a body of a similar character. A considerable development of the work of both these bodies is probable and it may be that they will in time assume control of the export trades. Simultaneously, there may be set up in Great Britain a complementary body or bodies supervising domestic production and determining the extent to which it is to be supplemented from abroad. The Agricultural Marketing Acts of 1931 and 1933 point in that direction. The Act of 1933 expressly provides that the import of a commodity may be regulated if there is in existence a marketing scheme for that commodity. One outcome of the meat negotiations

[1] See Conference of Commonwealth and State Ministers on Agricultural and Marketing Matters—Summary of Proceedings. (Commonwealth Parliamentary Papers, 1934.)

of July, 1935, was the suggestion that the determination of quotas should in future be placed in the hands of a council comprising representatives of the interested parties. Yet it seems more likely that, in the end, a British import authority will be set up to make bargains with the Dominion export commissions. The British import board would purchase its requirements from existing sources and not necessarily from the Empire alone, and so provide for the payment of foreign debts and ensure that prices would not be raised against it. Further, it could see that adequate standards of consumption were ultimately attained and through its operations demonstrate when the limits of profitable trade had been reached. For in some quarters the absorptive capacity of the British market is unfortunately assumed to be almost infinite. At the same time, the Dominion export commissions, if not the British import board, would require to have some say in exchange policy. The export commissions would need to be able to take whatever steps were necessary to maintain the production of what was needed to exchange against imports; and they would have to be able, through currency manipulation, to influence the domestic prices both of exports and imports. For under such a system of control, exports would no longer be priced competitively but would be sold for what they would fetch. The proceeds would be used to purchase imports and these would be priced through the exchange mechanism so as to cover the cost of the exports.

This outline, it should be realized, is tentative as well as superficial. Nor does it represent something to be aimed at as the ideal. Problems of exceeding difficulty would be raised by any such semi-socialistic control of trade. Yet the tendency in the direction indicated is powerful at the moment and no alternative long-period policy is in sight. However, the need for extending the sphere of control may become less urgent in the immediate future, whatever may be necessary in the long run. Some revival of confidence is likely which may diminish the throttling effects of economic nationalism upon the consumption of primary produce. Agrarianism in Europe may in turn cease to exercise so powerful an influence upon internal politics. Under such conditions, there is scope for a considerable expansion in the consumption of

primary produce. On the side of supply, some relief may also be secured. In Australasia, climatic factors will not remain so favourable as they have been in recent years. Again, the tendency at present appears to be in the direction of stabilizing output or at least tapering off the increase that depression and depreciating exchanges called forth. There is some scope also for concentrating on the superior kinds of foodstuffs and for the enlargement of the domestic market which, on the whole, is badly served as regards quality. The somewhat hysterical outcry against *any* restriction of supplies as likely to "ruin" the Australasian Dominions may therefore be regarded as propagandist. The long-term agricultural policy of the Dominions will remain to be settled, however. Since the war, the expansion of meat, dairy, and fruit production has involved a threat to British agriculture far more serious than the competition of cheap cereals in the nineteenth century. At the same time, it is becoming clear that the era of British specialization for the international market, about which economists once wrote textbooks, is over. Hence some agricultural revival in Great Britain may be looked for. The quantum of the export trade of the Dominions is, for this and other reasons, not likely to expand much. Some gain in consumption per head in Great Britain there may be—perhaps achieved for a time by the paying-off of the Dominion public debts—and such an increase should be aimed at in the public interest by any control authorities. Still, the decline in the population of Great Britain in the future cannot be overlooked. Nor are British imports likely to be increased by any marked extension of her export trade to the Dominions. The scope for British export trade depends largely upon a rapid increase in Dominion population, but the possibility of such an increase depends in turn upon the growth of secondary industries in the Dominions themselves. For the rural population is not likely to grow unless important alternative markets can be found, and they are not yet in sight. In any case, there is a marked tendency in these days to economize labour in agriculture.

Upon the whole it may be said that the outlook is neither so gloomy as those who cry ruin would suggest; nor so rosy as those would like us to believe who, with an eye upon the electorate or upon land values, speak of unlimited opportunities for expansion.

What is needed above all is the elimination of the huckstering spirit and the play of vested interests.

4. Economic Adjustments Necessary to Agriculture

The agricultural problem may be considered from two aspects—first, the causes of the severe decline of profits, and second, the extent of the economic adjustments required in consequence. As to the first, it is impossible to assign priorities among the influences that have been at work, though monetary policy and improvements in agricultural technique are no doubt the most important. While production has been expanding apace, the character of demand has been changing.[1] The cruder forms of foodstuffs are no longer so much sought after, while goods and services satisfying secondary needs are wanted more than ever. In 1927, the production of foodstuffs was only 12 per cent above what it had been in 1913, whereas the output of raw materials had risen by 43 per cent. A larger expansion in both directions had taken place in Australasia and since the depression there has been a further marked rise in output. When such factors as production in other countries, changes in population, and restriction of consumption have been taken into account, it looks as if some fall of prices was bound to come, whatever the banking policy. Still, the decline did not come about *pari passu* with the increase in production, but by several marked downward swings, associated with a general downward trend. It is, therefore, not unreasonable to suppose that monetary policy had much to do with movements in prices. Apparently, bankers were able to control in some measure the effects of their first post-war essay at lowering the price level, but since 1929 deflation has merely begot deflation. Under the circumstances, most producers have been working at a loss for some years and the extent of the adjustments that will be made will depend mainly upon how long the "run" is during which the deflationary trend persists.

Deflation has a disproportionate effect upon agriculture, since adjustment of output cannot be readily effected. But there is no likelihood that the forces which created the present position will automatically readjust it. The maladjustment between

[1] See A. Loveday—*Britain and World Trade*, p. 84 *seq.*

the prices of primary products and manufactures would not be cured by a rise in the general price level, for the situation of agriculture has deteriorated too much. Experience in the U.S.A., as well as in Australasia, suggests, too, that mere monetary manipulation offers no permanent solution of the farm problem.

Nor do the various subsidy devices, though it is commonly argued that these are necessary because farming is an important industry and must be maintained and preserved. It is asserted that we can no longer trust to adjustment through the bankruptcy of the relatively inefficient farmers, because in that case dearth might soon follow in the wake of glut.[1] The difficulty about this argument is that the subsidy policy has perpetuated, and even accentuated, the condition of glut and cannot be permanently maintained. Nor does there appear to be any historical or practical justification for this alarmist view. If prices are not propped up, will land go out of production wholesale and cause scarcity with prices soaring out of the consumers' reach, to use the phrase of the London *Times* of 11th April, 1935? Is famine the result of low prices leading to a restriction of farm output and can prices "soar" out of the consumers' reach except under famine conditions? The continued payment of subsidies to farmers may in some cases be a useful and desirable form of philanthropy, but it seems futile to claim that they are necessary to preserve us from want or that agriculture will perish without them.

No one will deny that farming is an important industry or that agriculture is fundamental to civilization. But there is no reason for drawing fallacious inferences from these statements, including the fallacy that industry cannot prosper unless agriculture is prosperous. This assumes that agriculture is the determining factor and that it must lead the way. It is easy to see how such ideas gain acceptance in countries like Australia and New Zealand. If prices for primary produce are high, these Dominions enjoy prosperity. From this it is argued that if agriculture is *made* prosperous (by various subsidy devices), then everybody will be prosperous. This "diffusion" theory of distribution has gained wide currency, though it is clear that if it is valid all that

[1] See Prof. D. B. Copland—"Economic Adjustment in Australia." (*Lloyds Bank Monthly*, November, 1933.)

is necessary in order to achieve infinite prosperity is to make every farmer a millionaire and everybody a farmer. It is, in fact, not historically true that industry never prospers when agriculture is depressed. Agriculture does not purchase a sufficiently large volume of manufactured goods to affect industrial prosperity decisively and industry has often flourished at the expense of agriculture. If the production of motor-cars or gold-mining had been the principal industry of Australia and New Zealand, the advocates of state intervention to *make* agriculture prosperous would not have been so sure of their ground. But in countries with a long tradition of dependence upon primary production, the bootstrap nature of such remedies is not apparent. What these Dominions are suffering from is a worsening of the terms of trade, and there is no magic that will overcome this.

The belief is widely held that the 1909–14 or pre-1929 price level is the "right" one for farm products, and no one would object that a restoration to either of these levels is not desirable. But there may be an unbridgeable gap between the desirable and the possible. The present generation in Australia and New Zealand has known a fairly prosperous agriculture, but it is not generally understood that during the past century agriculture has tended to be relatively depressed. The same maladies which in the nineteenth century afflicted the agriculture of the older countries appear likely to be experienced in the newer. Hence the Dominions should be prepared to face as a long-term policy a relative decline in agriculture, and especially in the amount of labour employed therein. In fact, it appears that there can be no stability for agriculture unless this is faced. Under the technical conditions now obtaining, agriculture tends to shed labour, yet family custom and economic tradition strive powerfully against that tendency. The result is competition for land, high values, and excessive output that ultimately have adverse effects upon farming profits.

Fortunately, the fact that the salvation of the farmer must be worked out mainly on the farm has been recognized and acted upon, though it has not been made very explicit. During the depression years, there has been a marked improvement in productive efficiency and a taking-up of a great deal of slack. The

industrial discipline, especially since the war, has not lain heavily upon an easy-going community, which has usually, however, been able to make the necessary response when circumstances demanded. But this advance upon the farms cannot be maintained unless land values are put upon a more economic basis. Such an adjustment having been definitely effected, there is scope for a further improvement in productive efficiency. But whether these changes will serve to make agriculture prosperous will depend largely upon the degree of real recovery that is attained abroad, and especially in Britain. For though a depressed agriculture may help to make depressed industries, these must revive before agriculture can be restored. While farming may be made more tolerable as a way of life by adjustments effected on the farm, the agricultural problem cannot be solved independently from the economic problem as a whole.

5. Conclusion

No survey of the marketing of Australian and New Zealand primary products can be adequate if it is confined solely to the exposition of the operation of the marketing mechanism. Some acquaintance with the historical, economic, and political background is essential to the understanding of the environment in which the trades work. This is especially true in these days when institutions are being refashioned and the line dividing the political from the economic sphere is becoming blurred. Such are the reasons for the wide scope of the present study.

Amid the widespread evidences of economic collapse and the failure of most of the *ad hoc* remedies, the question whether competitive capitalism can any longer work becomes an urgent one. Most of the steps so far taken aim at protecting existing production and the commercial interests associated with it. They are not concerned with the securing of a higher social dividend for all, but rather at reserving the benefits of monopoly for the few. Entrepreneurs press for state intervention which will benefit them and denounce all interference not of their own devising. These are signs of the decay of the regime which is losing its flexibility and its capacity for yielding to all an adequate and increasing measure of material welfare. How to restore that

flexibility and maintain it in a new environment in which individual freedom of choice can be preserved and even enlarged is the problem of this generation. For the defensive measures, if persisted in, can lead only to a kind of feudalism under which material rewards will be rationed out. On the one hand, capitalism makes breaches in its own code by condoning violations of contract which are supposed to be rendered respectable by state intervention. Such measures as exchange manipulation are really dishonest in an individualist economy, even though City of London financiers see only good in a change which robs small nations of a large part of the value of their London balances. On the other hand, men and resources stand idle. The anti-socialist writings of nineteenth century economists now make interesting reading. For example, in his essay on *Historical Progress and Ideal Socialism*, the late Professor Nicholson remarked, in the course of his denunciation of all forms of social control, that when the time was considered ripe for taking over the land and the capital, the land would be a wilderness and the capital old iron. This prophecy would seem to be at least partly borne out in the world to-day, but not in the sense its author intended. There is much land that has become, or is in process of becoming, a wilderness and there are plenty of "special areas" in most countries in which the "old iron" is all too evident. Yet it is difficult to *prove* that fundamental changes must be wrought in the economic system. Hope struggles against stubborn fact, and the changes that come in every century are so little perceived by most men that they would probably deny that they have taken place. In these times, the magnitude of the economic collapse calls forth unprecedented opposition to change. The danger in New Zealand, and to a less degree in Australia, is that an agressive agrarianism will hinder those developments which are necessary for the restoration of prosperity, but which may involve temporary loss to farmers and to their middlemen dependants.

For these and other reasons, including the fact that technical conditions now tend to bring about monopoly, it would appear that some conscious control of economic policy is desirable. In some directions this is being achieved without any dislocation. There are a few large concerns in which the profit motive can

no longer take first place, if they are to continue to function. It is the service they offer consumers and the scope for useful employment they furnish to their staffs that are the more important. On all hands there are signs that trustification is being extended and that there is a growing need for social control. The precise forms that this will take no one can lay down in advance, not even Fabian pamphleteers, though their efforts are a welcome sign of life in the midst of death. Simultaneously, it will be necessary to go forward with the large-scale organization of farming, so that it can achieve a greater degree of stability and be in a position to make more advantageous terms with other branches of industry. This need not involve any displacement of the individual farmer, but it will require a new attitude of mind. Bodies like the Australian Council of Agriculture can do much to promote standardization and efficiency on the farms, to make them more and more like outdoor factories. They can revolutionize the marketing mechanism and determine the appropriate scale of agricultural industry in general. But such co-ordinating and directive institutions will fail if they do not take a broad enough view of their aims. If they make farm profits their sole criterion, their efforts will be vain. Some changes in the system of land tenure would also appear to be necessary. It is commonly said that the farmer must be relieved by the state because his present position is due to no fault of his own. Yet if this be conceded, he must, on his side, be prepared to abandon his claim to make a capital profit out of his land should circumstances become more favourable. He cannot have it both ways.

Most of the recent agricultural "planning" in Australia and New Zealand has been of a protective character. Indeed, like much of the "planning" in the industrial world, it might perhaps be better described as scheming, since it is of an anti-social character. But that criticism must not be taken to imply that a revival of *laissez faire* is possible or all that is required. The farmer's view that markets work so imperfectly as to need fundamental reconstruction has much to justify it. Long and close acquaintance with the world of business is likely to lead any one to take its practices for granted, for it is difficult to be in it and not of it, and whatever is is all too commonly assumed to be

right. That the view here taken is not exceptional, nor confined to those without qualification to speak, might be amply illustrated. One reference must suffice. In his excellent account of *Experiments in State Control,* Mr. E. M. H. Lloyd observes: "It is worth noting that the laws of supply and demand work in extraordinarily different ways in different parts of the business world. A free market in the absolute sense nowhere exists. Much of the old abstract reasoning about supply and demand is so inapplicable to actual business to-day as to appear irrelevant or Utopian to the present age. If the first task of economics, considered as a science rather than as a branch of philosophy, is to describe the facts, it must be admitted that the actual working of the markets of the world has been very imperfectly studied or recorded" (p. 373). The assumption of free, or even relatively free, competition has no adequate relation to the facts. For unlike the intellectual, the commercial sphere is one in which knowledge is expressly withheld and often impossible to come by. How central banking policy, for example, is determined and the manner in which it is implemented are secrets firmly held by an inner coterie, in whose hands, for good or ill, our economic fate so largely reposes. With a large proportion of our population having no desire to compete in the way the business world competes and a larger proportion unable, for want of access to knowledge, to compete if they would, it is idle to talk about free competition. So that we may look for some marked changes in commercial, as well as in industrial, structure and welcome them as they appear, despite all the fears that are expressed of rigidity, static tendencies, and the like; for these are no more than fears that the problem of economic insecurity will ultimately be solved.

APPENDIX I

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Note.—Part I of the bibliography contains a list of works grouped according to Chapters. Part II contains the titles of works which have been used more generally.

PART I

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APPENDIX II

ADDENDA

THE following notes relate to developments which have taken place since the MS. left the author's hands—

CHAPTER II

SECTION 1. Page 57: Authority has been taken under the New Zealand Agriculture (Emergency Powers) Act, 1934, to regulate the number of dairy factories and prevent the erection of new ones where thought fit. See Dairy Factories (Licensing) Regulations, *N.Z. Gazette*, 11th July, 1935.

SECTION 3. What may prove to be the decisive case on the constitutionality of the Australian internal marketing schemes is *James* v. *The Commonwealth*, [1935] 52 C.L.R.570, in which the High Court of Australia gave judgment to the effect that the Commonwealth is not bound by Sect. 92 of the Constitution. The case is now under appeal to the Privy Council. Whatever view their Lordships may take, it appears certain that an amendment to the Commonwealth Constitution will have to be made if the marketing schemes are to be saved and the rights of the States in other respects safeguarded. The proposal to revive the Inter-State Commission may be the first step in devising new methods of regulating the relations between the Commonwealth and the States.

SECTION 6. Important amending regulations relating to the manufacture and export of dairy produce were published in the *N.Z. Gazette*, 12th September, 1935. These regulations govern *inter alia* the erection and operation of farm milking plants.

CHAPTER III

SECTION 3. Pp. 127–9. A further development in the control of the New Zealand wheat trade has been announced by the new government. Prices of wheat, flour, and bread are now fixed and importation of flour prohibited. The millers' organization ceases to regulate prices and sales of flour. This work is now undertaken by the New Zealand Wheat Board, which allocates quotas of wheat for gristing to the various mills. The net effect of the new arrangements is stated to be an increase of 4d. per bushel in the return to farmers, this being achieved at least in part at the expense of consumers.

SECTION 4. Page 132. The New Zealand Dairy Board has secured

the adoption of a group marketing scheme under which the factories will combine in regional groups and pool their produce for marketing purposes. This may assist in building up large-scale co-operation, which farmers have so far been unable to achieve. But the group marketing scheme may not come into force in view of the proposal of the new administration to pay "guaranteed prices" to dairy farmers. If fixed and uniform prices are to be paid by government, the produce will in effect become the property of the state.

By the Primary Products Marketing Act, 1936, a Department of Marketing is set up under the control of a Minister. The Department will administer the provisions of the Act prescribing the payment of a fixed seasonal price for dairy produce. This will be financed by the Reserve Bank of New Zealand, which has recently been brought under effective government control. Sales in London will presumably be subject to regulation as in 1926–27 (Chap. IV, pp. 130–3), but it is not yet clear whether rigid price-fixing will be attempted. The resulting sterling credits will be under the control of the Minister of Marketing, who is also the Minister of Finance, and will be used to finance imports from Great Britain (*cf.* Chap. VI, pp. 306–7). The general aims of the new policy appear to be to secure sufficient control (i) to stabilize the dairy industry so that the adjustment of mortgage debts, unfortunately shelved since 1929, may be made upon a definite basis, viz. the returns prescribed under the new legislation; and (ii) to check the inherent tendency to land speculation which is encouraged by fluctuations in prices and as a result of which the severity of economic crises is greatly increased. It is evidently not intended to extend the system of price-insurance to other commodities so long as the returns from them are reasonably adequate in relation to the capital commitments of the producers.

CHAPTER V

SECTION 5. Page 270. By the State Advances Corporation Act, 1936, the New Zealand Mortgage Corporation is to be dissolved and to become the State Advances Corporation, under government control and without private shareholding.

CHAPTER VI

SECTION 1. Page 300. In May, 1936, the Australian Government announced that by means of a licensing system, affecting a limited range of imports, an attempt would be made to divert some of the import trade to countries which were heavy purchasers of Australian goods. British countries are to be exempted from any prohibitions upon import which may be applied, and increased scope for British trade may result.

General

An Australian Meat Board has recently been set up. The extent to which it will control the trade is not yet clear, but it will probably be concerned primarily with administering the agreements with the British Government under which some classes of meat are subject to quantitative limitation upon import into the United Kingdom.

An Australian Wool Board has also been appointed to control publicity and research. Six of the members are nominated by the Australian Wool Growers' Council and one represents the Federal Government. A levy of 1s. per bale for wool publicity, etc., is proposed and similar steps are being taken in New Zealand.

APPENDIX III

TABLE OF CASES CITED

(With references to pages in text.)

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